

EXHIBIT K-2

**SENADO DE PUERTO RICO
DIARIO DE SESIONES**

TRANSCRIPCIÓN DE LA

**VISTA PÚBLICA
EN TORNO A LA R. DEL S. 600**

LLEVADA A CABO POR LA

COMISIÓN DE ASUNTOS ENERGÉTICOS Y RECURSOS DE AGUA

CELEBRADA EL MARTES, 14 DE ABRIL DE 2015

PRESIDIDA POR EL

HONORABLE RAMÓN L. NIEVES PÉREZ

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muy buenos días a todos y a todas. Siendo las nueve y siete de la mañana (9:07 a.m.), hoy, 14 de abril de [2016] **2015**, la Comisión de Asuntos Energéticos y Recursos de Agua del Senado comienza la vista pública para la cual hemos citado a la Oficial de Reestructuración contratada por la Autoridad de Energía Eléctrica, la señora Lisa Donahue, que está aquí con nosotros para que hablemos sobre el proceso de reestructuración interna en la Autoridad de Energía Eléctrica y el estado de dicha Autoridad.

Antes de comenzar, unas breves palabras. Aquí quiero reconocer la presencia del Portavoz de la Minoría en el Senado, el senador Larry Seilhamer. Buenos días.

HON. SEILHAMER RODRÍGUEZ: Muy buenos días, señor Presidente. Muy buenos días a todos. Good morning.

SR. PRESIDENTE (HON. NIEVES PÉREZ): El senador Larry Seilhamer ha estado bien activo con el tema de la energía y ha estado trabajando mucho con nuestra Comisión, y le estamos agradecido por eso.

De igual manera, le damos la bienvenida al Senador por el Distrito de Bayamón, Carmelo Ríos. Buenos días.

HON. RÍOS SANTIAGO: Buenos días, señor Presidente. Good morning.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Buenos días.

HON. RÍOS SANTIAGO: Y a todos los compañeros y compañeras que nos acompañan.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Antes de comenzar, como hemos sabido en los pasados...-al menos desde finales de 2013-, este Senado ha estado bien activo examinando el tema energético, no solamente el estado de la Autoridad de Energía Eléctrica, sino también de todo el sector energético. Como parte de esas evaluaciones de este Senado, salió y se aprobó el proyecto que creó la Ley 57-2014, Ley de Transformación y Alivio Energético, mejor conocida como la Reforma Energética. Posteriormente a la aprobación de esa Reforma Energética, y atendiendo un reclamo constante que se hizo durante el proceso de Reforma Energética, radiqué la Resolución 858, que fue aprobada por este Senado en junio de 2014, para comenzar un estudio, una evaluación, sobre los subsidios legislados por décadas y su impacto en las finanzas de la Autoridad y, finalmente, en los bolsillos de los abonados de la Autoridad de Energía Eléctrica.

Además, estudiamos, como parte de esa Resolución, el problema de la falta de pago del Gobierno y las corporaciones públicas del Estado Libre Asociado, de sus facturas de energía eléctrica con la Autoridad de Energía Eléctrica. Luego de ese estudio extenso y de las vistas públicas realizadas, radicamos el Proyecto del Senado 1256, una reforma de subsidio energético basado en la información obtenida en esas vistas públicas, que fue sometida a vistas públicas precisamente a principios de este año y que esperamos que en las próximas semanas podamos informar el proyecto final, luego de ser enmendado por las vistas públicas, por la información obtenida en las vistas públicas. Así que hemos estado bien activos aquí en el Senado atendiendo el tema energético.

No obstante, desde que ocurrieron los eventos y se firmaron unos acuerdos de indulgencia, “forbearance agreements”, entre la Autoridad de Energía Eléctrica y sus bonistas y se nombra a la Oficial de Reestructuración, que estamos bien contentos que esté aquí con nosotros presentes, el Senado ha sido bien deferente y no ha intervenido de manera alguna en el proceso interno de discusión y de evaluación que ha tenido la Oficial de Reestructuración y la Junta, trabajando muy duro, nos consta, para lograr la meta de crear una Autoridad de Energía Eléctrica para el Siglo XXI.

No obstante, y ya a días de que venciera el término de los acuerdos de indulgencia que, según información, aparentemente ya había una extensión, ya hablaremos sobre eso, es momento que el Senado entre en lo que se llama una vista de supervisión, de “oversight”, sobre lo que está ocurriendo en el proceso y, pues ya con el beneficio de haber trabajado intensamente por tantos meses, que el país completo conozca cuál es el resultado, cuál es la evaluación de la Autoridad de Energía Eléctrica, de lo que encontró la Oficial de Reestructuración, y, con mucha confianza, saber o por lo menos tener unos lineamientos de hacia dónde va la Autoridad de Energía Eléctrica de cara al futuro.

Dicho eso, pues quiero reconocer al compañero Larry Seilhamer. ¿Tiene algún comentario inicial?

HON. SEILHAMER RODRÍGUEZ: Ninguno.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muy bien.

Pues vamos a comenzar con el testimonio. Así que, pues...Antes que todo vamos a reconocer la presencia del Presidente del Senado, Eduardo Bhatia, que está entrando, haciendo su entrada por aquí.

Así que -good morning-, me gustaría que se presentaran, para récord. Could you please identify yourselves for the record?

ING. RODRIGUEZ GARCIA: Muy Buenos días tengan todos. Ingeniero Harry Rodríguez García, Presidente de la Junta de Gobierno de la Autoridad de Energía Eléctrica.

SR. PRESIDENTE (HON. NIEVES PÉREZ): To the microphone.

MS. DONAHUE: Good morning. Lisa Donahue, Chief Restructuring Officer of PREPA.

SR. PADILLA: Buenos días. Fernando Padilla, Agente Fiscal del Banco Gubernamental de Fomento.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muy bien.

HON. SEILHAMER RODRÍGUEZ: Señor Presidente.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Señor Senador.

HON. SEILHAMER RODRÍGUEZ: Que me había permitido anteriormente el uso de la palabra. Lo único que quisiera saber, si la presencia del Presidente de la Junta de Gobierno de la Autoridad de Energía Eléctrica será parte de los interrogatorios que podemos...

SR. PRESIDENTE (HON. NIEVES PÉREZ): ¿Perdón?

HON. SEILHAMER RODRÍGUEZ: Si los Miembros de la Junta de Gobierno de la Autoridad de Energía Eléctrica que están como paneles, si en su calidad de Miembros de la Junta de Gobierno pudiéramos hacerles

planteamientos a ellos, aunque sé que la citación es para la señora Donahue. Es simplemente para saber las reglas de juego.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Bueno, yo, en cuanto a eso, sé que el ingeniero Harry Rodríguez, Presidente de la Junta, está presente, así como el asesor del Banco Gubernamental de Fomento. Presumo que si están sentados ahí se someten a la jurisdicción para contestar preguntas.

ING. RODRIGUEZ GARCIA: Seguro que sí. Bien dispuestos.

Y antes de comenzar, a mí me gustaría hacer una breve introducción.

HON. BHATIA GAUTIER: Pero, señor Presidente, se citó a la señora Lisa Donahue, no a la Junta de Directores. Lo que quiero es establecer, ¿en qué capacidad está la Junta de Directores aquí?

ING. RODRIGUEZ GARCIA: Brindándole apoyo a la...

HON. BHATIA GAUTIER: No, ella no necesita apoyo. Yo creo que es importante que la señora Donahue esté aquí y conteste las preguntas que tiene que contestar. Si cuando queramos escuchar a la Junta de Directores, escuchamos a la Junta de Directores. Pero la Junta de Directores es una cosa, la Oficial de Reestructuración es otra cosa y yo creo que queremos quedar bien claros en cuanto a eso.

ING. RODRIGUEZ GARCIA: Bueno, la Oficial de Reestructuración...

HON. BHATIA GAUTIER: Y el Banco de Gubernamental de Fomento es otra cosa también. O sea, cuando tengamos preguntas para el Banco, tenemos preguntas para el Banco; cuando tengamos preguntas para la Junta, tenemos preguntas para la Junta y la Junta será citada en su momento.

Yo creo que la señora Donahue debe contestar las preguntas, según la versión de ella y no la versión de la Junta de Directores de la Autoridad. O sea, ésa es mi perspectiva, señor Presidente.

HON. SEILHAMER RODRÍGUEZ: Totalmente de acuerdo con el señor Presidente.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Pero desde el punto de vista de la Presidencia de la Comisión, si están aquí sentados se someten a la jurisdicción y a las preguntas que tengamos que hacerle individualmente, con el entendido de que las preguntas dirigidas a la señora Donahue serán contestadas por la señora Donahue y no por el Banco de Fomento ni por el Presidente de la Junta.

ING. RODRIGUEZ GARCIA: Eso es así.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Y quiero que eso esté bien claro.

ING. RODRIGUEZ GARCIA: Yo quiero que esté claro para el récord que la señora Donahue se reporta a la Junta de Gobierno de la Autoridad de Energía Eléctrica.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Eso es bien correcto, pero por otra parte nosotros en el Senado tenemos el poder de citar.

ING. RODRIGUEZ GARCIA: Seguro.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Y citamos a la señora Donahue y está aquí para responder preguntas. Así que, lo vamos a atender de esa manera y yo espero que estén claros de que si también ustedes están sentados ahí, se están sometiendo a la jurisdicción de esta Comisión.

ING. RODRIGUEZ GARCIA: Seguro.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Y lo cierto es de que las preguntas que sean dirigidas a la señora Donahue no voy a permitir interrupciones ni voy a permitir ningún reclamo de ninguna clase por parte ni del Banco ni de la Junta.

ING. RODRIGUEZ GARCIA: Estamos claros.

SR. PRESIDENTE (HON. NIEVES PÉREZ): ¿Estamos claros?

ING. RODRIGUEZ GARCIA: Totalmente claros.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muy bien.

Receso de un minuto.

RECESO

DEPOSICIÓN DE LA SRA. LISA DONAHUE

OFICIAL DE REESTRUCTURACIÓN DE LA AUTORIDAD DE ENERGÍA ELÉCTRICA

SR. PRESIDENTE (HON. NIEVES PÉREZ): Miss Donahue, whenever you are ready to provide your testimony, go ahead.

Could you please? The microphone. Thank you.

Go ahead.

MS. DONAHUE: Thank you.

Good morning, President of the Senate Eduardo Bhatia, President of the Commission Ramón Luis Nieves and Members of the Commission. My name is Lisa Donahue and I am the Chief Restructuring Officer of the Puerto Rico Electric Power Authority, known as “PREPA”. I am also a Managing Director and global leader of the Turnaround and Restructuring Practice at

AlixPartners, a global business and advisory firm. Before my appointment as Chief Restructuring Officer at PREPA, I was an executive at a number of other power companies, including executive vice president and chief financial officer at Calpine Corp., an independent power producer operating in Texas, California, Canada and Mexico; chief financial officer at Atlantic Power Corp., a publicly traded power and infrastructure company; and chief restructuring officer at SemGroup, L.P., a mid-stream oil & gas, pipeline, storage and commodity trading company.

Before I begin, I would like to thank President Bhatia, President Nieves and the Members of the Commission for giving me an opportunity to address the Commission regarding the status of PREPA's business plan, transformation and ultimate recovery plan. We take our responsibility to the people of Puerto Rico very seriously and appreciate this opportunity to speak directly to the Commission. In addition to my prepared testimony, I have attached a short power point presentation highlighting key points of my testimony.

Background and Mandate

Several months before my arrival, PREPA had reached a financial crisis in the summer of 2014. This crisis did not arise overnight. A combination of recurring negative cash flows, an ongoing recession, outdated generation facilities, substantial debt maturities and an inability to access the capital markets created a severe financial and liquidity crisis that threatened PREPA's ability to operate, including the ability to continue purchasing fuel to run its power plants and provide electricity to Puerto Rico.

Facing a deadline of nearly \$700 million to fuel line lenders, in mid-August PREPA entered into forbearance agreements with its fuel line lenders and other key financial creditors, including insurers and bondholders controlling more than 60% of PREPA's \$8.3 billion of outstanding power revenue bonds.

These Forbearance Agreements were a first step in addressing PREPA's financial situation. In addition to setting out a framework for a consensual path towards PREPA's restructuring, the Forbearance Agreements provided PREPA with operational flexibility by permitting PREPA to use its construction reserve funds for operating purposes. They also increased PREPA's liquidity by removing any obligation to make sinking fund payments totaling nearly 45 million dollars each month. The breathing space afforded under the Forbearance Agreements has allowed PREPA to begin the work necessary to turnaround its operations and develop a new business and operating plan. Since the Forbearance Agreements were originally entered into in August 2014, they have been extended once through April 15, 2015. We are currently involved in discussions concerning another possible extension.

PREPA's Governing Board selected and appointed me as Chief Restructuring Officer in September of 2014 after a robust search process, including interviewing several potential candidates. Since then, I have reported directly to the Board and worked alongside PREPA's management, and serve at the discretion of the Board. Although negotiating with creditors is a part of my role -and certainly the one that has garnered the

most public attention- most of my time has been spent tackling fundamental operational problems that have hindered PREPA for decades.

My mandate includes providing overall leadership to PREPA's restructuring process, which includes developing a business plan, implementing revenue improvement and cost reduction plans, overseeing and implementing cash and liquidity management activities, improving PREPA's ability to analyze, track and collect accounts receivable, improving PREPA's capital expenditure plan, and developing plans to improve PREPA's generation, transmission, distribution and other operations.

Key Challenges

PREPA is a large and complex organization whose future success is critical to the people, businesses and economy of Puerto Rico. For many years, PREPA has been run by successive Boards of Directors and senior management teams that have been subject to the changing direction and policies of different administrations. Management and other strategic decisions, including staffing and capital investment, too often have been based on political considerations rather than best practices or sound business judgment. When I arrived at PREPA, it was clear to me that PREPA was far behind the industry in virtually every respect. Since my appointment, PREPA has made significant strides to improve its operations, but we have more work to do.

Before outlining the work we have done so far, I would like to discuss a few of the serious operational challenges that PREPA faces. Once a crown

jewel of the island, PREPA's situation has deteriorated over the years to become one of the island's most challenged public corporations. These challenges include a lack of institutionalized processes and procedures, outdated systems and information technology, and frequent changes of employee positions and responsibilities with each electoral cycle. Staffing decisions are made often without regard for prior experience or expertise given the nature of PREPA's role in the political process. This pattern has made it difficult for PREPA to tackle critical multi-year projects, such as environmental compliance and capital investment. In the past, scarce capital has been spent on multi-year expensive projects that later administrations have determined not to pursue -losing the value of prior investments and at times incurring costs to remove partially constructed projects.

Governmental agencies, corporations and other public institutions -and even for-profit entities operating out of public facilities- fail to pay their bills, either because PREPA's billing systems are unreliable and outdated, or because PREPA does not take sufficient actions to collect. Theft of power remains high and costly.

On top of this, PREPA's generation infrastructure consists of old and outdated systems. This results in an unusually high rate of forced outages, which prevents optimal, and therefore least cost dispatch of the generation fleet. A significant number of PREPA's generation units are technologically outdated, requiring PREPA to rely on expensive fuel.

PREPA's inventory controls are below industry standards. PREPA had no fuel inventory controls when I arrived. We now have fuel inventory

controls but still need to improve other inventory controls. For example, transmission and generation inventory includes unknown quantities maintained in “cages” across PREPA’s network and PREPA’s tracking system does not account for its engineering inventory.

Procurement practices focus on a large number of small vendors, with payments to over 14,000 entities in fiscal year 2014. A lack of product standardization across PREPA’s organization leads to vendor management issues, delays and high costs. PREPA’s deteriorating credit situation and Jones Act vessel requirements compound these challenges by limiting the vendors that are willing and able to supply critical fuel to its generation fleet.

Three-quarters of PREPA’s vehicle fleet is technically obsolete. In addition, PREPA has limited visibility into fleet movements because it has no central tracking or performance measures. PREPA’s maintenance and repair shops are focused on breakdowns and as a result routinely fall behind on preventative maintenance.

PREPA’s IT systems are not integrated, resulting in duplicate data, poor data utilization and poor data quality. These systems are also underfunded and suffer from frequent outages. PREPA’s workforce is not adequately trained to effectively use and improve IT resources. This causes much of the frustration that customers feel when waiting for thirty (30) minutes or being disconnected from the call center.

PREPA’s customer service infrastructure is disorganized and ineffective. Collections efforts are incomplete. Service disconnection processes are ineffective and costly. Call centers have excessively long wait times and delays.

Safety remains a serious issue. Employees are faced with unsafe working environments, often due to a lack of training or appropriate protocols, and a physically deteriorated infrastructure.

These problems, which were created over a span of many years, are just some of the symptoms of decades of strategic neglect that we have been seeking to address together with the Board and PREPA management.

Operational Improvements and Savings Initiatives

Given these challenges, our team has focused on a variety of operational improvements and savings initiatives to turnaround PREPA's operations. We are focused on increasing efficiency, improving customer service, centralizing controls and decision-making utilizing industry best practices, and laying the groundwork for a modernized and self-sustaining future.

AlixPartners has worked with PREPA to formulate and implement a variety of initiatives across PREPA's organization, including most importantly in fuel purchasing and utilization, customer service and billing, indirect procurement, and safety. Improvements and initiatives in these areas will provide PREPA with estimated one-time cash savings of between \$200 and \$300 million, and estimated recurring annual savings of between \$200 and \$400 million. To date, PREPA has already obtained or implemented improvements that will result in \$130 million in both one-time cash and recurring savings. Addressing these issues now -and putting into place lasting changes to make sure these improvements are maintained- will

strengthen PREPA's finances, alleviate pressures on rates and will be critical to PREPA's financial sustainability over time.

1. Fuel.

Fuel is PREPA's largest expense. Approximately 80% of PREPA's total expenses are related to fuel and purchased power. For that reason, one of our main focuses has been reducing and controlling fuel-related costs. When I arrived at PREPA, I found that there was no coordination or integration among the various dispatch, generation, procurement and accounts payable teams. We now have implemented an integrated process across the various departments at PREPA, including daily and weekly meetings, inventory tracking, controls on purchases, and other standard industry practices.

PREPA's ongoing rationalization of its fuel purchasing and utilization processes has already generated a \$36 million one-time benefit and is projected to generate an additional \$95 million to \$200 million in annual value going forward.

2. Customer Service, Billing and Collections.

With AlixPartners' assistance, PREPA has taken steps to improve its customer service, billing and collections processes, which are vital to PREPA's financial performance as well as to the experience of its customers. It has developed and begun implementing customer service and billing improvements that will result in a one-time benefit of between \$130

and \$200 million, as well as an estimated annual value of between \$80 million and \$145 million.

Since September 2014, PREPA has engaged in a comprehensive review of its government receivables, including an investigation of more than a decade of historical records. We have closely reviewed the FTI Report on government receivables and other matters in an effort to increase collections. We are also working with Hacienda and individual agencies on budgets for fiscal year 2016 and payment plans for past due accounts. Through these efforts, PREPA has reduced its receivable balances with other public corporations and Commonwealth agencies, which will result in one-time value estimated at up to \$110 million, approximately \$15 million of which has already been achieved to date. Improved processes with respect to collections from municipalities will provide up to \$20 million per year in incremental value going forward.

Benefits from improved receivables processes are already clear. Since December 2014, government agency accounts receivable more than 30 days overdue have been reduced by 15 million dollars. We have also worked to reduce outstanding receivable balances from PREPA's general customers by implementing new service suspension processes, and also have conducted an RFP process to select and retain collections agencies for inactive accounts. Overdue general customer accounts receivable have been reduced by over \$40 million since December 2014. Overall, we project that the general customer initiatives being undertaken will result in one-time value of as much as \$96 million, and as much as \$10 million in annual value.

PREPA's customer service and billing improvement efforts also involve the prevention of theft and other non-technical losses, call center enhancements, and customer care and billing reforms. First, we have updated payment plan approval policies to allow PREPA and its customers to work collaboratively to reduce account balances. Second, we are looking for strategies to accelerate meter refresh plans. Lastly, we have begun to use data to identify cases of potential theft quickly and accurately. We forecast these efforts to provide up to \$115 million per year in value going forward.

We have also worked to significantly upgrade call center operations, including through technology improvements and workforce training initiatives. Going forward, AlixPartners will work with PREPA to improve customer service and billing, including by reducing the backlog of estimated billings, completing an investigation of efficiency losses and increasing the capacity of field resources to perform investigatory work.

The above-described customer service, billing and collections initiatives are estimated to result in a one-time benefit of between \$130 and \$200 million, as well as estimated annual value of between \$80 million and \$145 million.

3. Procurement and Inventory Management.

PREPA is also just beginning to undertake a series of improvements to procurement, shop and vehicle fleet management, and inventory management practices, which are projected to provide PREPA with one-time value of up to \$60 million and annual savings of up to \$75 million per year.

We began this initiative in January 2015, and so far PREPA has achieved \$5 million in annual savings related to procurement and another \$5 million in one-time savings related to inventory management.

Procurement improvement includes consolidating vendor relationships and ensuring that vendor contracts cover all key equipment in PREPA's fleet, as well as working to limit cash purchases. With respect to inventory management, AlixPartners is working with PREPA to reduce unnecessary inventory and bring down operating costs. We are also working to prevent the buildup of excess inventory in the future by ensuring managers have visibility to and understand inventory on-hand across PREPA's system before initiating new purchases. In addition, we are working on improving inventory controls by limiting and accurately accounting for inventory held outside our warehouse locations.

PREPA's efforts to improve the operations of its repair shops and maximize fleet efficiency include steps to allow PREPA's employees to work more efficiently, for example by coordinating to ensure shop requirements are reflected in parts RFPs. These efforts include the rationalization of PREPA's equipment base by identifying and inspecting potential excess vehicles and expanding the use of GPS technology.

4. Safety.

PREPA has a very serious safety issue. In the last twelve (12) months alone, there have been three fatalities and countless accidents. This is unacceptable. In September of 2014, PREPA began an RFP process and ultimately chose DuPont to conduct a safety assessment across the entire

system. AlixPartners and DuPont then conducted a series of meetings -first, separate meetings with management and union leadership, and then joint meetings to discuss the results and a collaborative path forward. DuPont is now working with our teams to instill a safety culture and place the emphasis back on the safe way to do our jobs. PREPA is undertaking these safety initiatives to save lives and make PREPA a safe workplace. We owe this to our employees and their families.

Regulatory Compliance

PREPA is making significant progress towards addressing local and federal regulatory requirements.

1. Energy Relief Act-Act 57.

In furtherance of its obligations under Act 57-2014, the Puerto Rico Energy Transformation and RELIEF Act and the Forbearance Agreements, PREPA has contracted with two internationally recognized engineering firms to assist in its long-term integrated resource planning efforts. In November 2014, PREPA obtained the results of a study conducted by Leidos Engineering, LLC, which focused on PREPA's long-term generation needs and was instrumental in allowing PREPA to assemble the preliminary business plan required under the Forbearance Agreements by December 15, 2014. To comply with its obligations under Act 57, PREPA has contracted with Siemens, which is currently assembling a comprehensive integrated resource plan that addresses generation, transmission, distribution and fuel options. The Siemens integrated resource plan is an essential building block

for PREPA's overall recovery plan and will be used to update and refine PREPA's long-term business plan and financial forecasts. PREPA is on schedule to meet the July 1, 2015 filing deadline required by Act 57.

In light of its obligations under Act 57 to participate in rate review processes, including the initial rate review, PREPA has contracted with Navigant Consulting, Inc. to analyze, redesign and modernize PREPA's rate structure so that it meets industry standards. Navigant's work is another key building block that will allow PREPA to update and refine the work it has already completed on its long-term business plan and financial forecasts.

PREPA is engaged with the Energy Commission in providing requested information and assisting the Commission in its rate review process. We are confident that we will complete the process as efficiently and timely as possible.

2. Environmental.

PREPA has also taken a series of steps towards an executable compliance plan for federal environmental regulatory standards, including the Mercury and Air Toxics Standards, commonly referred to as the "MATS".

PREPA anticipates that eight (8) of its fourteen (14) units subject to MATS will comply with the standards by the applicable deadline of April 16, 2015. Specifically, Palo Seco units 1 and 2, San Juan units 7 and 8, and Costa Sur units 3 and 4 will comply with MATS by switching to "limited use" status, which are subject to less stringent requirements. Costa Sur units

5 and 6 will comply with MATS by combusting primarily natural gas, which is currently supplied to the plant by the EcoElectrica terminal.

Four units likely will not be able to comply with the MATS by the applicable deadline: Palo Seco units 3 and 4, and San Juan units 9 and 10. Last year, the Puerto Rico Environmental Quality Board granted PREPA a one-year extension to comply with MATS at Aguirre units 1 and 2, which extended the compliance deadline for those units until April 16, 2016. PREPA will need at least that amount of time, and likely longer, to comply with MATS at those units, as compliance at those units will depend on completion of the Aguirre Gas Port project, currently scheduled to be completed in 2017.

On December 3, 2014, PREPA requested a one-year extension of the MATS compliance deadline for the four units at Palo Seco and San Juan. That request was recently denied by the Puerto Rico Environmental Quality Board as PREPA's compliance plans for those units are still in formative stages. The preliminary plan for these units -which is part of the Siemens IRP work- is to replace them with new, more-efficient unit(s). Construction of the new unit(s) will require capital, but will also result in significant cost savings and emissions reductions, by burning cleaner fuel and burning less of it. These efforts are part of our overall plan and discussions with our stakeholders.

PREPA continues to work with its experts to analyze alternative compliance options to ensure permanent, long-term compliance with the Clean Air Act and MATS, and also to provide affordable, reliable power to the people of Puerto Rico. As part of that process, PREPA has met with

EPA officials on multiple occasions to discuss its overall compliance strategy. We are in regular communication with EPA and we intend to continue to work with EPA and the Puerto Rico Environmental Quality Board closely.

Vision for a New PREPA

In addition to implementing operational improvements and addressing regulatory requirements, we have spent significant time since September 2014 considering the various elements of a comprehensive recovery plan to transform PREPA into a modern and self-sustaining utility, and reduce the all-in rate charged to consumers over time. I would like to provide you with an overview of that plan.

PREPA's new and comprehensive business plan will serve as the foundation for its future planning, operations and performance.

First, the plan will include mechanisms to allow PREPA to operate more independently. We need to make PREPA an efficient and effective place to work that can plan and staff itself beyond the next election cycle. Its sole focus must be on improving its ability to meet the immediate and long-term needs of its customers. To ensure that the plan will be implemented and sustainable over the long-term, PREPA's Board and management structure will need to be independent and focused on best business practices.

Second, the plan will aim to create financial stability and a sustainable capital structure, including a robust capital investment program to modernize PREPA's generation facilities and transmission and distribution network.

This will improve performance and reliability while helping PREPA reduce operating and financing costs.

Third, consistent with industry standards, the plan will update PREPA's rate structure to allow for the full capture of actual operating costs, capital expenditures, financing costs and realized revenue.

Fourth, it will contain a strategy and roadmap to comply with MATS and other EPA regulations, critical components to make PREPA environmentally compliant.

Fifth, the plan will include recommendations to revise the procedures governing contributions in lieu of taxes, "CILT", and improvements to PREPA's collection mechanisms.

Sixth, our plan will diversify PREPA's fuel supply mix over time to decrease commodity price risk. More modern units will give PREPA more flexibility to maximize its use of renewables. Over time this will result in savings to PREPA's customers and render the system more reliable and secure.

Lastly, the plan will call for the continued implementation of the operational improvements that we have been working on. Some of these improvements are already being implemented, but PREPA will need to adopt industry-wide best practices to benchmark performance and ensure continued and lasting progress. These improvements will benefit PREPA and its customers.

A summary of the key workstreams involved in PREPA's transformation can be found in the power point presentation attached to this testimony.

PREPA recognizes that it will not be easy to [recognize] **realize** this vision, but believes it to be the right path for PREPA, the people of Puerto Rico and PREPA's creditors. Some components of the recovery plan can be achieved in near term, while others will require capital expenditures and other measures which may take several years to complete. Working with all of PREPA's key stakeholders, we expect to provide more detail on PREPA's recovery plan as critical work streams currently underway near completion.

Next Steps in PREPA's Transformation

Since entry into the Forbearance Agreements, PREPA has been in constant communication with its creditors and their advisors to set the framework for a collaborative process with a goal of reaching agreement on a consensual recovery plan. PREPA intends to continue working collaboratively with the Forbearing Creditors and we are optimistic that an agreement can be reached.

A number of the key technical inputs necessary to drive the next steps in PREPA's transformation are near completion. Once PREPA obtains final inputs from the Siemens integrated resource plan and the Navigant rate study, PREPA will incorporate those inputs into its business plan. We anticipate this will be completed during the summer of 2015. In the meantime, and following completion of its business plan, PREPA will continue engaging with its creditors, employees, unions, legislators, regulators, consumers and other stakeholders.

I would like to thank the Commission for giving me the opportunity to participate in this hearing and to update you on PREPA's business plan and recovery plan.

Thank you.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Thank you, miss Donahue.

First of all, before starting our questions I must recognize that Aníbal José Torres, our senator Aníbal José Torres, has joined the proceedings. Good Morning; senator Miguel Pereira, good morning; senator Angel Rosa; senator María de Lourdes Santiago; [and] senator Rossana López; and senator Ramón Ruiz.

I saw him. He is in the audience. But you can join, Senator, if you want.

First of all, Miss Donahue, in your professional experience, have you worked with restructuring of operations in similar power companies such as PREPA?

MS. DONAHUE: In my experience, I have worked in similar power companies, yes. I think PREPA is a bit unique because of the age of its units and some of the complications. You are a closed system. You must provide power to this island. You don't have the option to go to the grid somewhere else and get power, so that makes the restructuring and stability of a system like PREPA that much more important.

SR. PRESIDENTE (HON. NIEVES PÉREZ): In your previous experiences, what has been,...If you can provide an estimate, the duration of the agreements that those companies that hired you to work on the

restructuring, how [much] **many** months, years have you taken previously in other similar companies to finish your work?

MS. DONAHUE: I should foresay that every situation is very different and it depends on the complexity of the job at hand. I was at Calpine from November of '05 to June of '08.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Three (3) years?

MS. DONAHUE: A little less than three (3) years.

SR. PRESIDENTE (HON. NIEVES PÉREZ): In a less complex situation than PREPA?

MS. DONAHUE: Calpine had different complexities. PREPA has very deep operational problems. Calpine had more than \$20 billion in debt that had to be dealt with, 90 plants across a few countries all in North America. And it was...Operationally it was more stable. Capital structure wise it was very complex. So, that's what I mean when I say that there are different elements of each situation. SemGroup, I was there for about eighteen (18) months.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

MS. DONAHUE: Atlantic Power, I was there about sixteen (16) months.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Sixteen (16) months?

MS. DONAHUE: Approximately.

SR. PRESIDENTE (HON. NIEVES PÉREZ): In previous experiences regarding restructuring of power companies, you had been from sixteen (16) months up to maybe a three (3) year period to finish your work?

MS. DONAHUE: I think that's...Yes.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok. Could you please discuss the status of the ... for rate review, as required by Law 57?

MS. DONAHUE: Yes. As discussed, we retained Navigant Consulting, who has done a similar review for other municipalities. One of the unique elements of this particular rate case is that this is really the first time we'll be going through this together with the Energy Commission and we are looking at not just a rate review, we are looking at actually a rate restructure so that we can determine the most clear way to lay out what the rates are and the most comprehensive way for the consumers, and make sure that the rates capture all the applicable costs as well as look at opportunities to recapture revenue.

From a process perspective, we do expect that, consistent with required under Act 57, that we will be submitting our existing rate to the Commission and then we'll be working shortly thereafter for requests of a rate restructure.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Do you foresee that in that rate review process, apart from what you have just mentioned, that you can take away from the rate elements that do not necessarily have to be in the rate in that process?

MS. DONAHUE: I'm not sure what you mean when you say...

SR. PRESIDENTE (HON. NIEVES PÉREZ): Yeah. I'm talking about elements in the rate that have been at least discussed -we have discussed them here in the Senate-, certain elements that do not belong in the rate, that cannot be included in the rate and that Law 57 says that cannot be included in the rate. Have you discussed that situation?

MS. DONAHUE: I'm not sure specifically which elements you are referring to when you say can't.

SR. PRESIDENTE (HON. NIEVES PÉREZ): No. I'm asking you.

MS. DONAHUE: Oh! I thought you were asking me to respond to your discussions in the Senate.

SR. PRESIDENTE (HON. NIEVES PÉREZ): No.

MS. DONAHUE: We are looking at trying to put together a comprehensive rate that will accurately cover PREPA's operating costs as well, as I've mentioned, trying to simplify the rate structure. One of the complaints, in addition to the costs of power that we've heard is the complexity. And what we're aiming for with Navigant is, in addition to a comprehensive rate that covers all of PREPA's costs, to simplify the explanation so when consumers get their bills they'll understand precisely what they are paying for.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

Let's talk about milestones. In accordance with the forbearance agreements, by December 15, 2014, PREPA had to disclose a business plan, a five (5) year business plan. What happened with that milestone?

MS. DONAHUE: On December 15, we presented to the creditors and their financial advisors a nine (9) year business plan and it was a preliminary business plan. The reason for that is the Leidos preliminary IRP report focused on only one element of the whole PREPA system. It focused only on the generation element. And as we've mentioned early, you're a full closed loop system, so the IRP must include and analysis of not just

generation but transmission, distribution and fuel options. So, that milestone was met on December 15.

SR. PRESIDENTE (HON. NIEVES PÉREZ): But that was just a preliminary plan. That was not the business plan that was required.

MS. DONAHUE: That's correct. It was a preliminary plan.

SR. PRESIDENTE (HON. NIEVES PÉREZ): So, to this day, you have not submitted the complete business plan that was required in the forbearance agreement?

MS. DONAHUE: There were several milestones in the forbearance agreement and perhaps it's helpful to go back and talk about the different milestones.

SR. PRESIDENTE (HON. NIEVES PÉREZ): No, but I am asking about that specific milestone. You have to deliver a business plan, a complete business plan, by December 15, 2014.

MS. DONAHUE: The business plan for December 2014, the requirement was not a complete business plan. In fact, it specifically excluded certain elements of a required business plan. So, the technical milestone of a preliminary business plan based on the preliminary IRP was met.

SR. PRESIDENTE (HON. NIEVES PÉREZ): But what was required was a business plan, not a preliminary plan just based on generation.

MS. DONAHUE: What was required was a business plan based on the IRP that Leidos Engineering had been contracted in the summer to do the study.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

Another milestone that was on the forbearance agreements was the delivery of a recovery plan on March 2, 2015. I understand that an extension was granted. Could you please discuss what has happened with the recovery plan? Has it been delivered?

MS. DONAHUE: The recovery plan has not been delivered and the recovery plan is the plan that I discussed in my written testimony, the timing and requirements to construct that recovery plan. That plan was not delivered.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

Let me ask you; does the restructuring plan that you are working address governance problems in PREPA or the governance structure in PREPA?

MS. DONAHUE: Yes.

SR. PRESIDENTE (HON. NIEVES PÉREZ): In what way?

MS. DONAHUE: We are still working on the formal recommendations, but as I've mentioned I think it's very important that the management team and the Board are allowed to operate as a business and focus on long-term actions required for PREPA versus every four (4) years getting replaced by the results of another administration coming in.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

Let's talk about the MATS. On January 2014, one of the first public hearings that we held in relations to the various energy reform bills that we were considering at the moment, we received testimony from the former President of the Environmental Quality Board and we were discussing the issue of MATS and the time constraints and the extensions that PREPA

could ask for and the appropriate responses. As it has become public, the Environmental Quality Board recently denied extensions for units 3 and 4 of Palo Seco and 9 and 10 of San Juan. I have reviewed the actual exchanges of letters between PREPA and the Environmental Quality Board, and based on those letters and statements from the President and from the Executive Director Alicea it says that the reason that PREPA could not deliver on time the necessary information to obtain the extension was because the plans that you are working on have not been submitted.

What would you respond to that? And bear in mind that next Thursday, on April 16, is the final day of compliance. So, what would be your response to that?

MS. DONAHUE: I think it's this Thursday.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Yeah. In two (2) days.

MS. DONAHUE: Right. We are working collaboratively with local EPA as well as Region II and National EPA to come up with a comprehensive roadmap for overall MATS compliance. The Siemens IRP study that I've mentioned as part of the overall plan will be a key element in the technical ways to comply with MATS in each of the different units across the island and in a sustainable fashion.

SR. PRESIDENTE (HON. NIEVES PÉREZ): But is...I understand that you are working on a plan. But the thing is that in two (2) days those plans will be in no compliance with EPA MATS standards. So, what would you foresee that could happen, regarding fines, regarding several orders from the EPA? Because Puerto Rico is not in compliance or those units are

not in compliance because you failed to provide the necessary information that was requested by the Quality Board.

MS. DONAHUE: A couple of things. Our discussions with the EPA have been on a holistic solution for MATS compliance. The plans will develop a glide path to get us to MATS compliance and that's what we have been in discussion with EPA again at a national level, a regional level and a local level. The EPA understands the unique situation that PREPA and Puerto Rico is facing and we have had very open discussions with the regulators on how we intend to get to compliance. The plants that will be operating out of compliance we notified EPA; we notified that as a result of system reliability and the requirement to make sure that the people of Puerto Rico get power and that there aren't the rolling blackouts that people are speculating. That is all taken into consideration as part of the negotiations of a final settlement with EPA.

In addition, you mentioned fines. There is a possibility that at some point in time fines could be levied. The other important element is the Clean Air Act takes into consideration the financial requirements of the system that is operation and trying very hard to get into compliance with MATS. These are all parts of our discussions.

So number one, on Thursday, I expect business as usual and we will continue optimizing the plants and providing power to the people of Puerto Rico. Number two, we are continuing in our discussions with the EPA and expect a consent decree and an overall agreement with them that will get the people of Puerto Rico and -pardon me- PREPA into MATS compliance.

And number [four] **three**, to the extent that there are any fees levied we will deal with those and negotiate those with EPA at the appropriate time.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok. So, what you are saying is that the failure to provide the request of information will subject Puerto Rico to pay fines to a consent decree with the EPA and overall non-compliance in those four plants with the MATS regulations.

MS. DONAHUE: I'm not sure that's exactly what I said. I think what I said was...

SR. PRESIDENTE (HON. NIEVES PÉREZ): I'm just asking if that's what you're saying, because that's what we heard.

MS. DONAHUE: Right. Ok. Then maybe I need to be a little clearer. What I said was we are working on a plan for MATS compliance, that it's important that we get a plan for MATS compliance that is satisfactory to the regulators and the DOJ that will ultimately be part of the consent decree that's required. The plan is not yet complete, that is true.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok. Let me go to the FTI report of November 2014, the billing and collection efforts. In that report there were several other milestones that PREPA had to meet. I'm going to mention some of those.

First, initiative general clients, phone call reminders for secondary accounts. That was going to start on November 2014, ending on January 2015. The other one was immediately investigate all meters with no billing. That started on November and had to end on March 2015. Implement programs with collections agency, increase data analysis of customer behavior and reporting to credit bureaus.

Could you please tell me the actual status of those milestones identified in the FTI report?

MS. DONAHUE: I would clarify that the FTI report had recommendations, not required milestones.

SR. PRESIDENTE (HON. NIEVES PÉREZ): And those recommendations have been discussed by the Board? Have they been discussed by the Board?

MS. DONAHUE: The FTI report, which as you know was made public and was one of the milestones required for the first forbearance, was discussed in detail with the Board and with the creditors.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

MS. DONAHUE: There were lots of recommendations in there and there are a few that you highlighted -and I'll try to remember exactly what they were. The investigation on the meters I discussed in my write up, that, yes, there are broken meters; there are issues with the meters where results in estimations of bills that are later reconciled; that analysis and acceleration of capital expenditures to get meters in the appropriate places has begun.

The mention of collection agencies, I've mentioned that also in my written testimony, that, yes, there have been four collection agencies that have been interview; two have been selected to look at the overdue accounts and most importantly the inactive accounts, which are identified as over two (2) years old.

The reconciliation of the customer accounts and the active engagement of the customer to work with them, to reconcile any questions on the bills, that has happened.

The...I'm sorry. What was the other one?

SR. PRESIDENTE (HON. NIEVES PÉREZ): I guess we ... that.

MS. DONAHUE: Ok.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Thank you.

Let's switch to another subject: renewable energy. In your review of PREPA and the preparation of a business plan, what do you foresee will be the role of renewable energy? And let's consider the context.

We have a local law that states that by this year, 2015, 12% of energy generated in Puerto Rico has to be based on renewables. That has not happened. Puerto Rico is not in compliance with that law. Could you please tell me if you have discussed the issue and if you have plans to comply with the law?

MS. DONAHUE: You are correct that 2015 we will not be in compliance with that percentage. The plan will provide for, in the immediate term, as much renewable that the system can accept. As I've mentioned in my written testimony, one of the challenges that PREPA has as a system is old, inefficient, inflexible units. That makes it difficult to put too much renewable into the system while you are required to have base load units. What the plan will include over time as we upgrade to much flexible, which will be dual fuel units combined cycle with the ability to power up and power down more flexibility, that will allow more renewables to get into the system. So, the plan will outline over time the amount of renewables that the system can take while still maintaining system reliability. Yes.

SR. PRESIDENTE (HON. NIEVES PÉREZ): We already have that information based on the Siemens report that states that what the grid

actually can tolerate is 580 megawatts of renewables right now in the current state of the grid, which is very sad because the current Executive Director of PREPA and the Board very responsibly ordered a report from Siemens, a technical report, that was disclosed in February of 2014, that said that what the system tolerates right now is just 580 megawatts. However, in previous years, several 63 or so PBAS were agreed between PREPA and the private sector for 1600 megawatts of power and with other problems. So, it's a good point to be made that the current administration of PREPA very responsibly ordered that study.

So we already know the amount that the grid tolerates. What my question was, was what was the pass, the compliance with our local law?

MS. DONAHUE: Right. As I've mentioned, I don't foresee in 2015 we will be in compliance with the local law. And as the...

SR. PRESIDENTE (HON. NIEVES PÉREZ): Excuse me, you are saying that during this year we will comply with the...

MS. DONAHUE: I said we will not be.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ah! You will not be. Ok.

MS. DONAHUE: One of the other considerations that I think is important to bring to the Commission attention is -and we have been in discussions with the Renewable Cooperatives and some of their potential financing sources-, is that while PREPA is in a difficult financial situation, in order to get the financing for the renewables to actually be built on the island and have PREPA as a stable counterparty on the other hand, that makes it very difficult for that path to happen. So, as I've mentioned, our

plan will show as the new units come on and the system can take more renewables into the system they will be absorbed.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

Let me move on to another subject. As has been publicly made known, 40% of the bondholders for PREPA presented a proposal to PREPA. According to press reports, you have several objections to that proposal. Could you please discuss with us what those objections are?

MS. DONAHUE: Sure. I think, as I've mentioned, I think there are elements of the bondholders preliminary proposal that are helpful to the process and helpful from our perspective to glean what the bondholders are thinking about on a path towards an ultimate plan. Number one, they adopted our savings numbers and those are absorbed in the plan, and I think that's important. They recognize that the transformation from an operational perspective of PREPA is very important. Number two, they adopted our initial range of estimation on the capital required to get to MATS compliance, which is in the range of approximately \$2 billion. And number three, they acknowledged that a key element of the plan is MATS compliance. However, there are several elements of the plan that provide for aggressive assumptions that are not operational and can't actually be executed on.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Such as?

MS. DONAHUE: Well, number one, they assume that the demand, which has been consistently declining, increases as of January 2016 by approximately 5%. Of course the effect of that is more demand spread over time so it artificially will depress the rate. It also assumes...it starts with the

very premise that the bond debt is paid in full and on time and there is no change to that, which may or may not be the ultimate result but it prematurely assumes that. And there are assumptions for other capital that comes in, that the assumption is that there is no amortization on the new debt for an extended period of time. Our experts and my own experience in the capital market, it's very difficult to imagine new capital coming in with no amortization and allowing antecedent debt to be paid beforehand. It assumes more in the renewables than what the Siemens reliability study shows, a much faster absorption of renewables into the system, which as you pointed out and we just talked about points to unreliability, questions on the system, also the timing of getting those renewables online. The assumption on the cost of the PPAS is significantly below what our existing PPAS are and what we've been able to glean from market. And although they do mention that MATS compliance is critical -and we agree-, their solution is a blending of number 6 and number 2, and our experts tell us in our system that, that will not get us to compliance.

So as I said, I think that the fact that there is a plan with a framework for us to work on is helpful. The fact that it was released publicly is not necessarily helpful. And we'll continue to work together on coming up to the right solution, the correct solution, the executable solution and the one that is best for all stakeholders.

SR. PRESIDENTE (HON. NIEVES PÉREZ): What will happen if the...I understand that yesterday or today the bondholders granted PREPA an additional 30 day extension of the forbearance agreements. Is that true?

MS. DONAHUE: You've got more information than me then.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Bueno...

MS. DONAHUE: No.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Let me rephrase my question.

MS. DONAHUE: Ok.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Have the bondholders granted an extension to the forbearance agreements that expire this Wednesday, tomorrow?

MS. DONAHUE: They expire tomorrow, the 15th. That's right.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Yeah.

MS. DONAHUE: We are in discussions with them about an extension.

SR. PRESIDENTE (HON. NIEVES PÉREZ): But there has been no extension granted up until now?

MS. DONAHUE: To my knowledge, as I sit here right now, there has been no extension granted.

SR. PRESIDENTE (HON. NIEVES PÉREZ): No extension?

MS. DONAHUE: That's correct.

SR. PRESIDENTE (HON. NIEVES PÉREZ): So, if no extension is granted tomorrow, bondholders could, maybe Thursday or the other day or next week or when they desire, they could file a complaint in the court for receivership of PREPA?

MS. DONAHUE: My understanding is that there is a 30 day default notice and after the 30 day default notice the bondholders could file for the appointment of receiver, that's correct. I should also point out, as part of the

original forbearance, after January 15 the bondholders where in a position to terminate at any time and they did not.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

My last question, in order for my colleagues to participate in the hearing. Publicly we have discussed the issue and if you ask my constituents they have asked, well, the PREPA has hired your firm, which obviously has done a lot of work with the Board and the agreement is for 9 million dollars and such. You have been aware of those public discussions, obviously. But the fact of the matter is that, according to your testimony and public records, PREPA has engaged several companies to help you...

MS. DONAHUE: Yeah.

SR. PRESIDENTE (HON. NIEVES PÉREZ): ... in this process. First of course your company, AlixPartners for an agreement for 9.7 million dollars; Leidos Engineering for 655 thousand dollars; the law firm Cleary Gottlieb Steen & Hamilton for 5 million dollars; Navigant Consulting for 495 thousand dollars; FTI Capital Advisors, which produced the collection plan...

MS. DONAHUE: Yes.

SR. PRESIDENTE (HON. NIEVES PÉREZ): ...for 325 thousand dollars; DuPont has two agreements in the amounts of 225 thousand dollars and 275 thousand dollars; and Siemens for 784 thousand dollars.

What we have here is that PREPA has engaged in the last months all of those firms for the total amount of 17.4 million dollars. I think it's very important because up until now from your testimony we have no business

plan, no recovery plan and no compliance with the MATS. And what the people are asking is, [have] these agreements, are they justified?

I'm not going...This is your testimony, obviously. I understand that the GDB -which has not been cited to appear before us, but you have your advisor here-, they also have similar agreements with some of those same companies.

Do you think that our...Apart from that, apart from PREPA having to enter into those agreements for 17.4 million dollars. You stated that in previous experiences that you've had with similar companies, the extent of your services went from eighteen (18) months to three (3) years. So, what you are saying is that we will be expecting higher fees, more contracts, more consultations with almost nothing happening? And I have to...What I'm saying here is that up until now a lot of the milestones have not been met. What will be your response to that?

MS. DONAHUE: A couple of things.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Yeah.

MS. DONAHUE: I think all of the milestones have been met, except the March 2 recovery plan deadline. Every other milestone has been met.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Well, I could defer from you. We could stipulate our difference, because what you delivered on December was an incomplete business plan.

MS. DONAHUE: What was required in December was an incomplete business plan. There were particular elements of it that were specifically excluded in the forbearance that required, no recovery, no capital plan, no balance sheet. A business plan is a fully integrated balance sheet cash flow,

PNL, as well as a long-term view. So, the plan itself that was required in December was not a full business plan.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

MS. DONAHUE: So, I would say that fixing PREPA is critically important to the island, critically important to the people of Puerto Rico. I understand that these numbers are big numbers. I understand it. It's difficult to comprehend how to pay for these things and not yet see what's going to come out on the other side.

PREPA is very damaged. PREPA is very distressed. PREPA needs a lot of work. When a situation and when a company is in this much distress they bring in experts like me to help them out of it. That's what I do. I understand it's difficult for the people of Puerto Rico to understand how it got here and how to get out of it, but I maintain that it's critically important, and I think we have one chance to do this right and to set PREPA on the right path and to fix it for the future of Puerto Rico.

I do believe that there is a lot that's been accomplished, and as you say we can agree to disagree. That's fine. I think that what we have been doing is laying the groundwork so that the plan that we put out when we do put out is one that is achievable, will have regulatory support, will have EPA support and most importantly will be sustainable, because the worst thing that can happen is we come up with this wonderful plan and it goes right back to whatever political challenges and they are not able to actually execute on it. That's the challenge that we are facing.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok.

Miss Donahue, thank you for testimony...

MS. DONAHUE: Thank you. I appreciate it.

SR. PRESIDENTE (HON. NIEVES PÉREZ):...and your answers.

Now, I'll leave you with the Senate's President Bhatia.

MS. DONAHUE: Thank you. Thank you very much.

HON. BHATIA GAUTIER: Good morning, miss Donahue. It's a great honor to have you here and a great pleasure to finally have an opportunity to publicly discuss some of the issues that you have looked at over the course of the last nine (9) months.

MS. DONAHUE: Thank you.

HON. BHATIA GAUTIER: I have a number of questions, but I wanted to sort of start by saying there has been a lot of noise in the press, a lot of noise out there –not in the press only, but everywhere- and we could take one or two roads to talk about you and your contract, which is not what I want to do today, or talk about PREPA. And more than PREPA, I want to talk about energy in Puerto Rico.

This hearing, this particular hearing –at least to me- is not about you, it's about PREPA. And I want to clarify that from the very beginning, because it's very important that we solve an issue that is really hurting the economy of Puerto Rico.

Now, having said that, you have stated that -and you just did- that you have found a broken company, a company that needs a lot of help, a lot of outside help. Now, the question is, as an expert restructuring -I guess-, Chief Restructuring Officer, if that's your title, at what point do you stop fixing something and you get a new one? At what point do you say "my old 1970's Chevy is no longer usable and want to go for a 2014 Prius"? At what

point does a Restructuring Officer not recommend to its Board, but recommend to the overseer of the Board, which is us? At what point do you tell us where do we go in terms of creating a new entity to serve the people of Puerto Rico?

MS. DONAHUE: One of the challenges that PREPA has -and I mentioned this earlier when asked what makes it more complicated or what makes it different- is the fact that PREPA must be self-reliant. PREPA, as a closed loop provider of power, cannot get power from the mainland grid, cannot get power anywhere else. So, one of...When you navigate that path and try to determine is this better closed, is this better new, is this better private, is this better with a new unit here; is recognizing that at all time PREPA must provide power. You must have a sustainable system. So, as we look to across the fleet and think about where the dollars are best spent, the fundamental premise must be that the power must continue. So, we are looking at several combinations on what makes sense for the best PREPA moving forward and what it looks like. But we do have to remember that these are long dated assets, requires permits and time to construct and the power must continuously be on. So, that makes it a little more challenging and a little more complicated, but we are looking at trying to decide 2014 Prius, maybe a different model, something, versus what we've got and looking across the fleet what makes the most sense.

HON. BHATIA GAUTIER: Yeah, but that's my point. My point is, at what point? Because every investment that needs to be made to update and bring up to standards, to current day standards, the technology existing at PREPA. The whole investment has to be somehow repaid.

MS. DONAHUE: That's right.

HON. BHATIA GAUTIER: That's what brings us here today, the fact that we have been unable to create a plan to repay the bonds that have been issued in order to bring up to date the technology of PREPA over the course of the last however many years, right?

MS. DONAHUE: Yes.

HON. BHATIA GAUTIER: Ok. Having said that, what concerns the people of Puerto Rico, what concerns us, is how do we, looking forward, stop...At what point do we stop trying to fix old technology? And at what point do we start looking at new technology? I mean, how do we do that?

MS. DONAHUE: I'm sorry. I'm concerned I'm not being clear. We are absolutely looking at new technology. As I've mentioned, this part of MATS compliance with dual fuel more efficient units, that's taking an average heat rate from ten (10) thousand down to seven (7) thousand. So, that means more efficient; you are consuming cleaner and you are consuming less, which is technologically newer and better, both environmentally and cost.

HON. BHATIA GAUTIER: And if we are looking at new technology, that new technology has a cost.

MS. DONAHUE: That new technology does have a cost, yes.

HON. BHATIA GAUTIER: And if it does have a cost, and given PREPA's recent history of being unable to access the market, who will pay for this cost? Who will actually shoulder the burden of paying for these investments? Are we looking at public, private, joint ventures, public-

private partnerships? Are we looking at...What are we looking at or are you looking at or is someone looking at?

MS. DONAHUE: Someone is looking at that. We are looking at the most efficient way and the cheapest way to get capital into PREPA. We are looking at and have engaged with a firm to help us figure out this part. One of my guys is solely focused on trying to look to government money. Does it make sense? There [is] **are** a couple of different sources of capital. There is an IPP, which is project financing. There is potential as what we are looking at with Aguirre GasPort; DOE, which is low-cost financing guaranteed by the Department of Energy. There [is] **are** your traditional Muni funds and they are the ones that are not only sitting in PREPA, but they are sitting across the whole Commonwealth capital structure. There [is] **are** the monolines that will guarantee the debt that will allow it to be a little cheaper. We are looking at a bunch of puzzle pieces to figure out what is the best way, cheapest, most efficient and fastest -because that's another requirement-, fastest way to look at PREPA, how it's set up, is it a public-private partnership, is there a new plant that's an IPP. All of that is being considered as part of the recovery plan. Yes.

HON. BHATIA GAUTIER: And that is all within the existing structure of PREPA or at some point will you actually, or someone like you, recommend a different structure, a different legal structure from PREPA?

MS. DONAHUE: We are looking at it both ways. And the reason we are looking at it both ways is, I've mentioned, the balance of time versus building something new. And we are looking at the permitting, if there is

something in place and there is a unit there, replacing the unit from a permitting perspective would be faster versus building a new plant.

HON. BHATIA GAUTIER: Look, I...

MS. DONAHUE: So, we are looking at it a bunch of different ways.

HON. BHATIA GAUTIER: I guess this is not a question, it's just more a venting one (1) minute from my side.

MS. DONAHUE: Ok.

HON. BHATIA GAUTIER: We just want to fix this.

MS. DONAHUE: Yes.

HON. BHATIA GAUTIER: You know, the people of Puerto Rico are not into whether it's public, private, half public, half private; they just want to have cheaper energy, environmentally friendly energy and cost-effective energy. That's what they want. They want a supply of energy that is a lot cheaper than what they have right now. They don't want to deal with this mess five (5) years from now, ten (10) years from now, fifteen (15) years from now. So, bottom line for me is -I know you have three (3) more months or you will probably have three (3) more months or you are asking for three (3) more months to do a final analysis-, my concern is that this window will be there perhaps for three (3) more months, but it will get to the point where we have to make decisions and we are not going to prolong this any longer, at least from my standpoint.

I do have some specific questions. First, where are the audited statements of PREPA that have not been issued? They were supposed to be issued recently. Do you have any information about that in terms of both the

Securities and Exchange Commission and they are delayed or they have not been issued? Do you have any information on that?

MS. DONAHUE: I would have to refer that to...

HON. BHATIA GAUTIER: To the Board, to the management itself?

MS. DONAHUE: I'm not involved with...

HON. BHATIA GAUTIER: In terms of fuel supplies,...

MS. DONAHUE: Yes?

HON. BHATIA GAUTIER: Fuel supplies, we have been saying in Puerto Rico that there is something called the "oil cartel". The "PREPA oil cartel" is a term we use. Are you familiar with that term?

MS. DONAHUE: No. I'm familiar with the term "oil cartel". Uniquely applied to PREPA, I'm not familiar with that, no.

HON. BHATIA GAUTIER: Well, uniquely applied to PREPA has been a concern that many in Puerto Rico have had, including myself, that there has been some sort of hanky-panky going on with this oil business inside PREPA and how oil is purchased, how it is burned, how some of the oil purchased is not burn, where does it go, how much do we pay, what the quality of the oil is. Do you have any information? Do you have an oil expert, a purchasing expert who can provide information on this?

MS. DONAHUE: One of my team members is an oil and gas expert and he was brought on specifically to address getting control of fuel procurement, tracking, efficiencies. He is a twenty (20) year Royal Dutch Shell employee who has worked in the Caribbean; actually native Spanish speaker from the Dominican. As for as historical, anything looking backward, ...

HON. BHATIA GAUTIER: Back.

MS. DONAHUE: ...we really haven't done any sort of forensic type investigation on what happened before. What I can tell you is what's happening now. As I've mentioned in my written testimony, the control environment we determined was not industry standard and in fact really non-existent. The inventory for fuel was managed on spreadsheets, not in the system and tracked, and when it was put in the system it was put in in dollars versus units and dollars, barrels and dollars.

We have done an enormous amount of work to work within the systems. And we observed the receipts of fuel at the barge, the testing of the independent inspectors and implemented a control environment that includes industries standards of temperature regulated testing, of strapping tables so you actually are measuring dipping the tank and you know exactly what's in there. And also, reconciliation between the reserve tanks and the burner tips, and anything that is outside of a very low-standard deviation. Now there is root cause analysis, making sure we understand if it's a calibration of the meter or something else.

So I can say very comfortably that since my fuel guy has been working very, very closely with the fuel, the Fuel Procurement Office as well as generation storage, that we have the appropriate control environment around fuel now. Again, I can't answer anything historical.

HON. BHATIA GAUTIER: You don't have, I guess using your own term, the forensic evidence to actually make a judgment on previous performances on the purchase of oil.

MS. DONAHUE: I wasn't hired to look back forensically or historically. I tend to look forward and if we find a problem fix it and install...

HON. BHATIA GAUTIER: Ok.

MS. DONAHUE: ...the appropriate controls and training.

HON. BHATIA GAUTIER: Now, in terms of generation, the cost of generation, the generation of kilowatt-hour, I know you have two co-generators, both AES and EcoEléctrica. They are much cheaper, in terms of producing energy in Puerto Rico, than PREPA is. The question is not why are they cheaper -we know why they are cheaper-, but the question is why can that model not be replicated many times over by PREPA? And if replicated, wouldn't that lower dramatically the cost of doing business, both for PREPA and for customers?

MS. DONAHUE: A couple of things. AES and EcoEléctrica are what's called independent power producers and they have a PPOA, a power producing operating agreement, back to PREPA. AES is significantly cheaper as, I'm sure people know, it runs on coal, which is...

HON. BHATIA GAUTIER: Right.

MS. DONAHUE: ...the cheapest fuel. EcoEléctrica is certainly a more efficient plant. And it all comes down to the fuel impute; they run on natural gas. One of the initiatives that we worked on at PREPA was actually optimizing dispatch, because there became a point when fuel drop so low that there was an arbitrage opportunity to not call EcoEléctrica and to burn number 2 instead. So, I think that for sure they are more efficient for all the obvious reasons, and for sure PREPA deals with a lot of legacy, older,

inefficient units. Can it be replicated for PREPA, more IPPS? That's something that we are certainly looking at. As I've mentioned, you have the balance of the time and the permits and the requirements to build a Greenfield plant versus upgrading the units that are in existing locations and how much quicker you can get the new dual fuel combined cycle flexible units. So, that's all part of the nexus that we are looking at, trying to figure out...As I've mentioned, I think we get one chance to do this right and we need to do it right, and all of that is part of what we are looking at.

HON. BHATIA GAUTIER: But you have not discarded recommending that part of the generation be done in similar ways with IPPS, just like we've done before with EcoEléctria and AES. You have not discarded that.

MS. DONAHUE: We have not discarded that, no.

HON. BHATIA GAUTIER: Ok. I won't hold you to what your recommendations are going to be, because once we read them they will be what they will be, ...

MS. DONAHUE: That's right.

HON. BHATIA GAUTIER: ... in three (3) months from now.

Now, let me ask you a couple of questions about Law 57. Law 57 had to be establishes precisely to try to have a coherent set of rules. Have you dealt with anything like Law 57 in other states of the union?

MS. DONAHUE: I've dealt with other already established public utility Commissions, not only in other states in the unions but also in Canada, yes.

HON. BHATIA GAUTIER: And what does Law 57 add to...What is the value of Law 57 to the existing legal framework of Puerto Rico, in your opinion?

MS. DONAHUE: I must say I'm not as familiar with the law in its totality. What I can really only talk about is how it interfaces with my work with the Commission and as it directly impacts PREPA. It's a long law. So, the Commission, once it became established and is operating has been helpful with us to think through CILTS, to think through other standard rate case type approaches. We've met with them several times individually, with their advisors, sharing of information as we work together to try to navigate this path. I think it provides a forum and structure for an appropriate rate setting overtime. In my experience, what typically happens with regulated assets is every few years you do a rate case and every few years you justify the costs, the appropriate return on capital and what should be charged. And I think that with the Commission we are setting up the framework that once this initial rate is established at three (3) years, four (4) years, five (5) years, whatever the appropriate period of time is, for an extensive rate review.

HON. BHATIA GAUTIER: And is that a good thing or a bad thing?

MS. DONAHUE: I think it's a good thing, because...

HON. BHATIA GAUTIER: Having a regulatory framework to set the rates...

MS. DONAHUE: I think it's helpful. I think it will provide ultimate visibility and I think that it will allow the flexibility for the regulated utility to appropriately adjust the rates as the situation dictates.

HON. BHATIA GAUTIER: Let me ask you two final questions, because I know my fellow Senators also want to ask some questions; but one has to do with the bondholders. You met with the bondholders. The bondholders met with you. You have been exchanging thoughts and ideas in the press also and sometimes you meet and sometimes you don't. Sometimes ideas that come from them you read them first in the press. Sometimes...I don't know what's going on, honestly, but something is going on.

Now, the question is, the first report that Puerto Rico received in terms of an offer from bondholders offering 2 billion dollars was that you were not happy with that or you were not satisfied. You were not too please with that. And then a couple of days later we read in the paper that you did find some positive steps in their offer. Which is it? Is it one or is it the other or is it both or can you help us understand what your position is in terms of what the offer has been, what is it that we don't know that we should know. And please brief us as much as you can, because we need to know, otherwise we as a Body have to somehow come up with an alternative mechanism to deal with the existing debt.

MS. DONAHUE: Right. I, as I think most of the Commissioners know, although I am trying to learn Spanish, my Spanish is not very good, so a lot of the media reports I get second hand. I have heard that I've rejected GE. I've heard...There is all sorts of, I think, speculation and misinformation on the bondholder proposal and what it entails. I would first like to say I have not rejected GE. I have worked with GE many times in many situations, both as a provider and manufacturer of turban engines,

long-term service provider. GE is not making this proposal. GE -and I have discussed it with GE to try to understand what their role is in the proposal-, GE was contacted to ask them if we were to promote a proposal and we were to need new turbans, would you be interested in being the original equipment manufacturer? And further to that, would you provide some financing? Would you be a financing partner? Which would be great; GE turbans are wonderful, if that's exactly where we end up. So, that's point one.

Point two, this type of process, in my experience very rarely is played out and as much of a public forum as this one has become. Normally, discussions with the Restructuring Officer and the company and its creditors, are necessarily confidential in order to allow for very frank and open settlement discussions. And I think that's appropriate. I know that people would like an awful lot more information while the process is being developed, but the danger in that is exactly what's happening now. There is a lot of misinformation, misunderstanding, assumptions on things that should be done that can't be done.

We, as PREPA, have a higher requirement to put together a plan. We can't put ideas out there on the table that aren't executable, that aren't sustainable, that aren't acceptable to the EPA and the DOJ and aren't acceptable to the people of Puerto Rico. So, I think the reason why there is confusion on my reaction to the plan is it's a bit of both. I'm disappointed that the plan was made public before we had an opportunity to thoroughly vet it and thoroughly respond to it. I do appreciate the attempt to throw out some ideas on what could make sense for PREPA. So, as I said, as the

company, when we put together our plan –and I maintain again-, in my view we get one chance to do this right and I do appreciate that people wish it could go faster. I wish it could go faster; it can't go faster.

So I believe the bondholders are attempting to be constructive. I believe by releasing it publically it created a lot of confusion. So, as I've mentioned, there are elements of the plan that I think are helpful. There are elements of the plan that can't work because of technical, systemic, regulatory or environmental issues that PREPA in its uniqueness make it difficult to execute on the plan that the bondholders have put together.

HON. BHATIA GAUTIER: Well, do keep us abreast of what's going on in terms of those negotiations, if they have extended 30 days or not. And the reason why I tell you, I know usually it's confidential, but for us if it's not that route, we have to find another route.

MS. DONAHUE: I understand.

HON. BHATIA GAUTIER: And we...I mean, at the end of the day, PREPA, in a way, is unique because it's a government owned enterprise and the Government, which is us, we have to decide what to do with PREPA. Do we continue funding PREPA or do we stop funding PREPA? How do we create a new PREPA? It's sort of our challenge.

Now my last, last, question is following. It may come -and at the end it's an issue of trust and this is why there is so much...I mean, in Puerto Rico we have come to a point which is very difficult to do anything if we don't trust each other. We have to start trusting each other. Now, we trust each other if we believe we can trust each other. You don't want to trust someone that you certainly believe cannot be trustworthy, right?

So being that the case, what happens if some of your recommendations somehow are against or are not hand in hand or are not looked at favorably by the Board of Directors of PREPA? What happens? What happens if AlixPartners comes up with a recommendation that is not consistent with what PREPA management wants? Can we have the benefit of that recommendation or will that be stopped at the end of your report by the PREPA management.

MS. DONAHUE: I think when our report is final there will be some very tough decisions that are going to require bipartisan support in order to get PREPA to the next level. I have not yet encountered a not supportive Board or not supportive management. What I have encountered is a little resistance to change, which is human in my view.

HON. BHATIA GAUTIER: A little?

MS. DONAHUE: A little? Maybe a little more than a little, but it's been overcome by data, by meeting, by discussions. But there has been a little resistance to change. I would expect that the plan will be made public, ultimately. It's going to have to be made public, because again we are going to need the support across both parties. There will be some complicated and potentially unpopular recommendations that we are going to have to get behind in order to deliver what I think is critical to a new PREPA.

HON. BHATIA GAUTIER: My last thought is just make sure and don't be shy about putting all the recommendations that you think we need to look at and we will make sure the report [make it] **is made** public, because I think it's important that we face reality and I think the time is now.

Thank you so much for your time. Thank you, mister President.

MS. DONAHUE: Thank you.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muchas gracias al senador Eduardo Bhatia.

Pasamos al turno del senador Larry Seilhamer.

HON. SEILHAMER RODRÍGUEZ: Hi.

MS. DONAHUE: Hi.

HON. SEILHAMER RODRÍGUEZ: As many Puerto Ricans, I had and I would have had high hopes and expectations in your work.

MS. DONAHUE: Thank you.

HON. SEILHAMER RODRÍGUEZ: Evidence of that, the 15th of September, 2014, and I would read, I hand delivered a letter to the Office of PREPA, and it said and it was addressed to you: “Your appointment as Chief Restructuring Officer, CRO, for the Puerto Rico Electrical Power Authority is considered to be instrumental in the efforts to transform a public corporation into a self-sustaining economic development facilitator for the island. As minority leader in the Senate of Puerto Rico and as a licensed engineer, I have dealt with many issues related to PREPA and have been a vocal proposer for restructuring of the public corporation. If you consider it’s helpful and proper, I will be ready to give you my insights towards the rehab of PREPA”.

The only question I have, did you receive this letter?

MS. DONAHUE: I can’t say. I don’t recall.

HON. SEILHAMER RODRÍGUEZ: And that’s precisely one of my concerns.

MS. DONAHUE: Right.

HON. SEILHAMER RODRÍGUEZ: I had the feeling you never received that. I have the evidence that it was submitted.

MS. DONAHUE: I can't say that I did or I didn't. I'm not sure. I'm sorry.

HON. SEILHAMER RODRÍGUEZ: I'm not questioning the fact that you would meet with me or not, it's the fact that PREPA has a lot of walls around and I feel this was one of them.

MS. DONAHUE: I'm happy to meet with you at any time and share ideas.

HON. SEILHAMER RODRÍGUEZ: Thank you, miss Donahue.

As part of the forbearance agreements, and also in your contract, these scopes of services are pretty outlined and you told the Commission here that the milestones have been achieved, for exception of the final business plan. Is that true?

MS. DONAHUE: Yes.

HON. SEILHAMER RODRÍGUEZ: I would just like to go through some of them, see if you believe they have already been performed.

Number one is to develop a comprehensive business plan; we know the answer. To improve PREPA's worker protection and safety record. That has been performed, fulfilled?

MS. DONAHUE: We retained...Well, I think it's important that people understand changing a safety culture is an ongoing exercise. But in early September we interviewed five different safety firms and retained DuPont Sustainable Systems and they came in. They did an initial safety assessment. They made a presentation to senior management, also

independently to the unions. And then separate to that we established a combined session with select members of union leadership, union members, as well as members of management, members of my team, members of DuPont. In that, we established a safety committee and we have now put in place key performance indicators that are measuring recordable incidents, loss time events, etcetera. There are safety training programs happening across the organization and DuPont is now in the second phase, where they are looking at critical hazardous events, trying to anticipate a highly hazardous safety event and making very quick, on the spot recommendations to provide a [more safe] **safer** environment to work.

A critical element of safety also is, as part of the plan, capital expenditures to improve the infrastructure. I've mentioned that the infrastructure is literally crumbling and that of course is an unsafe environment. So, safety is ongoing, but I believe we've made significant strides on that area, yes.

HON. SEILHAMER RODRÍGUEZ: Lead the efforts for any revenue improvement and cost reduction plans that are necessary or appropriate for the implementation of the business plan.

MS. DONAHUE: Yes. Those are the different elements that I spoke with, focusing on fuel, supply procurement, efficiency usage, customer service and accounts receivable collection, procurement, and also safety workers comp looking across the system. Again, those are projects that were started at the very beginning at different stages depending on availability of, frankly, resources, and will be continued improvement efforts and executed over time. And the hope is when we leave we will be

transitioning automated information, policies, training for whoever takes this over moving forward.

HON. SEILHAMER RODRÍGUEZ: So, that's ongoing.

MS. DONAHUE: Yes.

HON. SEILHAMER RODRÍGUEZ: And to oversee and implement cash and liquidity management preservation activities. I read about that.

MS. DONAHUE: Yes. We do both a long-term and a short-term cash flow, a thirteen week receipts and disbursements with which more accurately reflects the actual cash movements versus a change in working capital. We also do a long-term two (2) year and five (5) year –the five (5) year is part of the longer term business plan, the two (2) year is looking out for the obligations and stress test based on updated fuel curves, changes to the business, payment plans that we're able to reach with long standing customers, and we work very closely with the PREPA treasury team and the accounts payables team to make sure that not only are we looking at a forecast, we are also doing a variance; so explaining this is what we thought we'd do, this is what we did do, here's the difference, here's why, is the savings temporary, is it permanent and why.

ON. SEILHAMER RODRÍGUEZ: I just got three more. It is very important for me to know...

MS. DONAHUE: Of course.

HON. SEILHAMER RODRÍGUEZ: ...where we're standing at.

MS. DONAHUE: I'm happy to answer your questions.

HON. SEILHAMER RODRÍGUEZ: To improve analysis, tracking and collection efforts and related processes for account receivables.

MS. DONAHUE: We have spent an enormous amount of time in the accounts receivable area, and this involves not just processes for collection, it involves something as fundamental as cleansing the data and reconciling the accounts and making sure when you go to speak with the corporations, the both public and private as well as the agencies, to have a reconciled amount between them before you can start collection efforts. We are very actively involved working with the PREPA folks. We've got two IT people that are what I call "data minors". They go in, they pull out the data, they cleanse it, they fix it, they make sure it makes sense and then put it in an understandable format. So, as I've mentioned in my written testimony, we are starting to see results, we are starting to see collections coming in, payment plans agreed to by the corporations and the agencies, and consumers that get their questions answered faster get an understandable reconciliation of what's required or paying.

HON. SEILHAMER RODRÍGUEZ: And the PREPA's capital expenditure plan.

MS. DONAHUE: That is all part of the long-term plan. We reviewed the plan as part of the preliminary budget for the maintenance capex, the capex that's required to maintain the existing system and infrastructure. We are working with the team, the technical folks across the system and, in addition, the inputs from the IRP on what's required long-term for capital.

HON. SEILHAMER RODRÍGUEZ: And last, but obviously not least, to develop generation, transmission, distribution and other operational improvements. Where are we standing there?

MS. DONAHUE: Some of the elements that I talked about in my testimony relate to that. We are working...There is two things from a generation perspective. Number one is optimizing what you currently have and then number two is looking forward to upgrade the system so that you can get more efficient units. And we are working on a dual track for that.

We've instituted a process called SNOP, which is sales and operational planning; and essentially is across the different disciplines that are required for efficient dispatch, and making sure, I mentioned earlier, we found an arbitrage opportunity for the EcoEléctrica cost of the power versus the cost PREPA now is as result of the drop in fuel. And we made sure working with the team that people understood we were optimally dispatching, meaning we weren't automatically calling on EcoEléctrica because we could provide it cheaper out of Aguirre; that type of thing. So, we were daily with the teams on that.

HON. SEILHAMER RODRÍGUEZ: Now the next questions I have will require short answers. I read in the newspaper you met yesterday with House Representative Aponte Dalmau and he stated that your contract would be extended; and reviewing your scope of services and what still hasn't been done, which is the final business plan, how long do you need and what is the cost for the compliance or for the fulfillment of all the services you were contracted for?

MS. DONAHUE: We are in discussions right now with the Board, who I report to and work for, for an extension of the contract. The cost would be the same on a full term equivalent and we did that deliberately, so I would have the flexibility to move required skill sets around, and we

haven't yet decided how they want to approach it from a duration perspective.

HON. SEILHAMER RODRÍGUEZ: June 30th would be a ballpark figure, reasonable?

MS. DONAHUE: I think we'll know in a day or two, because it expires...Actually, we'll know tomorrow because it expires tomorrow and I'd prefer to just wait until we actually have the answer versus a speculation, if that's ok.

HON. SEILHAMER RODRÍGUEZ: I ask because the press asked the same question and you said: "Well, we'll see you tomorrow". So, it's not tomorrow, it's tomorrow.

MS. DONAHUE: It's the 15th. It is tomorrow, right.

HON. SEILHAMER RODRÍGUEZ: You know, in Act 66 of 2014...You've heard of Act 66?

MS. DONAHUE: Yes.

HON. SEILHAMER RODRÍGUEZ: PREPA submitted a report and it states in the report that besides the contract with AlixPartners, they will be contracting other firms, including Cleary Gottlieb Steen & Hamilton and some other firms –Siemens, among others-, for 25 million dollars. That's what PREPA states in the report, for the same purpose, for restructuring in legal and financial matters. Who recommends PREPA the contract for 25 million dollars, in addition to AlixPartners?

MS. DONAHUE: Are you talking specifically of Cleary Gottlieb?

HON. SEILHAMER RODRÍGUEZ: There's six firms that...I didn't read them, but it's in the report. You want to know? You want for me to read?

MS. DONAHUE: I haven't seen the report. But what I'm trying to understand is the 25 million their estimation of total restructuring cost for the services of Alix, Siemens, Cleary Gottlieb and whomever else you've mentioned or are you assuming that the 25 million is for Cleary Gottlieb? I don't understand the question.

HON. SEILHAMER RODRÍGUEZ: No, no. I'm not assuming. I'm just reading from the report.

MS. DONAHUE: Oh! Ok.

HON. SEILHAMER RODRÍGUEZ: It says that, besides your professional services contracted for the restructuring process, they need to...and they are in the process...

MS. DONAHUE: I see.

HON. SEILHAMER RODRÍGUEZ: ... of formalizing contracts with Cleary Gottlieb Steen & Hamilton, Sidley Austin, González Machado and Roig, Wells Fargo Security, Van Ness Feldman, and CROs bond rating agency.

MS. DONAHUE: Ok.

HON. SEILHAMER RODRÍGUEZ: Are all these necessary in this process of restructuring or...

MS. DONAHUE: They are different elements.

HON. SEILHAMER RODRÍGUEZ: It seems to me, you know...I don't know...

MS. DONAHUE: There are different elements and there are different people doing different things. To just take a step back, the CRO retention is for a rating required per de agreement with the DOE. If the DOE is to provide a loan guaranty on Aguirre, they require a minimum rating in order to do that. Wells Fargo was retained, I believe, before I got there, but I didn't know what they were doing. They are working also on the loan guaranty with DOE. So, it's part of everything that PREPA is working on. Is it specifically related to the restructuring? It's a component of it. It depends on how you define the overall restructuring.

Cleary Gottlieb has been retained by PREPA -my understanding- for many years. They were there before I got there and they are working with a team from a legal perspective, because one of the things that we're doing is, I mentioned, we are looking at a couple of different puzzle pieces on what the most efficient, fastest way...and it may require coming to the legislators for some legislative changes. If we want to do this, we need to look at this. If we want to do this, we need to look at this. So, they are putting together, along with Sidley and Austin and PMA locally, to help us make sure, as we put our whole plan together, we can come up with the appropriate legislative framework in order to actually execute.

Also, a lot of these agreements are heavily legal intensive. The discussions back and forth with the bondholders and their advisors have a financial advisor element, which is the pieces that I'm doing, as well as operational. But it also has a legal element and those are the pieces that Cleary is doing.

HON. SEILHAMER RODRÍGUEZ: They told me to summarize.

MS. DONAHUE: Ok.

HON. SEILHAMER RODRÍGUEZ: I have a concern and they are correlated, Aguirre Offshore GasPort, the contract with Excelerate Energy and the MATS compliance.

PREPA, in letters both to the Planning Board and to the Puerto Rico Quality Board, states that Aguirre Offshore GasPort would initiate its construction in October of 2014 and would be in operation and completed by March 2015. It's in both letters, requesting the year extension. On the other hand, PREPA formalized three contracts with Excelerate Energy. You are aware of that, right?

MS. DONAHUE: I am familiar with Excelerate Energy. I've had several meetings with them. I'm not sure of the different contracts, however.

HON. SEILHAMER RODRÍGUEZ: Well, there's an infrastructure...And I'm concerned and I would like some feedback. The infrastructure agreement, which is the terminal and the pipe line, is for up to 295 million dollars. The terminal operation and maintenance agreement is for basically 500 thousand dollars per year; and the shuttle party, which is for 111,500 dollars for day up to twenty-five (25) years, that's about 1,000 million dollars, that's 1 billion dollars. And they were signed in 2014 and now we have knowledge that there is no financing. And how could PREPA responsibly sign these contracts with no funding to respond for this? Does Excelerate have liquidated damages of this? Does that go through? What is the overview of...And I put all this together because I'm short of time and there [is] **are** other colleagues that...

MS. DONAHUE: That's a lot. Ok.

As far as what claims Excelerate may or may not have ultimately as a result of whatever contracts were signed, I have no answer for that. My understanding on the contracts that were initially signed with Excelerate - now I understand the different contracts that you are talking about- the initial one is an EPC type contract; so it is to design, to construct, to actually build the port. The second one is for the floating vessel, the charter agreement that would be paid for the actual daily rate for the vessel. And then the third is the ongoing maintenance of the facility, assuming it's built.

In order to apply to the DOE for the actual loans, there are certain requirements that you must be at some point where you can give them technical information, timing information, where you are on the permitting, and all of that goes together as part of the application to the DOE. So, in order to get to the point to apply to the Department of Energy for their Loan Guarantee Program, you must have information on what the technical elements of the project would be, what the overall operating costs would be and what the project itself would look like from a timing perspective. So, I don't think it's unusual that the contract was signed before the DOE money came in. And the DOE is still evaluating and I suspect that will also be all part of the ultimate plan, whatever happens with the DOE.

HON. SEILHAMER RODRÍGUEZ: I'm done, but you haven't addressed what is the time schedule for the Aguirre Offshore GasPort, which is the foundation for all the plans.

MS. DONAHUE: Right. As I think the Commission knows, that there was an EIS issued in February and there were some recommendations to

look at the underground pipeline. At the moment, Excelerate is doing some testing on one of the recommendations, which is the horizontal drilling recommendation, and we are waiting for results of that. When we get the results of their testing, we will know if, on the one hand, horizontal drilling will be an acceptable approach or, on the other, if we are going to have to look at a rerouting of the pipe. If we have to reroute the pipe, I suspect that will entail more delays. So, the timing is a bit up in the air until we have an understanding on what the acceptable approach could be.

HON. SEILHAMER RODRÍGUEZ: Ok. Thank you, mister President. Thank you, miss Donahue.

MS. DONAHUE: You're welcome.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muchas gracias al senador Larry Seilhamer.

Yo espero terminar esta vista a las doce en punto (12:00 p.m.). Yo calculo que si cada uno de mis colegas aquí tenemos por lo menos siete (7) minutos de testimonio, podemos cubrir todos los temas y todo estará afuera para mediodía. Así que le quiero pasar el turno al compañero Senador por el Distrito de Bayamón, Carmelo Ríos; y voy a estar tomando el tiempo.

HON. RÍOS SANTIAGO: Thank you, mister President.

As you already heard, we are pressed for time, so let me just get straight to the questions. We heard your testimony about many issues, but what I'm interested [on] in is what meeting for negotiations, besides negotiating or related to forbearance extensions, did you have with creditors prior to the termination of the forbearance agreement on March 31st?

MS. DONAHUE: I'm sorry. Could you ask that question again?

HON. RÍOS SANTIAGO: Sure. What meaningful negotiations, besides negotiations related to forbearance extensions, did you have with creditors prior to the termination of the forbearance agreement on March 31st?

MS. DONAHUE: The forbearance agreement did not terminate on March 31st; it expired and then was extended. We have had many discussions with the creditors and I think it's important for the Commission to understand that the creditors are bucketed in a couple of different groups. There [is] **are** the fuel line lenders, which are the local Puerto Rican banks. There are the bondholders and those are the initial issuance bondholders, the ... and the There are the bondholders that are the secondary buyers that bought in the secondary markets. And then there are the monolines and the monolines are the insurers. So, there have been discussions individually with each of those... There have been discussions in the aggregate with forty (40) or fifty (50) room presentations, answering questions with those groups. We have given them... We have a data room that they can all access, subject to a confidentiality agreement, and they get access to all of the information and all of the analysis. And we have given the creditors more detail than what my written testimony was on where we are trying to go, as far as time line and what we are looking at. So, there have been meaningful negotiations over time since I was retained in September.

HON. RÍOS SANTIAGO: Well, let me ask you this then now, has the bondholders' plan been presented to PREPA or members by the representatives of the bondholders' group?

MS. DONAHUE: The bondholders' plan was not represented to the Board of Directors. It was...The full twenty-six (26) page plan was given to the Board and discussed when we initially got it. And then, further to that, when we had a chance to review it, get further information from them and talk to them about some of their assumptions, we have talked with them about some of the challenges and some of the positive elements of the plan.

HON. RÍOS SANTIAGO: Well, so let me see if I can get this right. If one of your principal tasks is to facilitate a concession deal between PREPA and its bondholders, does it make any sense to set up a meeting and have them share the information?

MS. DONAHUE: In the meeting that we had, when the bondholders actually presented their plan, they requested the appearance of the GDB and the GDB attended that meeting.

HON. RÍOS SANTIAGO: But my question is, if you are trying to get a consensus between all the parties that you've mentioned, has it been an immediate interaction that has become a point of origin to get something going? Because the information I have is that meeting hasn't taken place yet.

MS. DONAHUE: I'm sorry. Which meeting are you referring to?

HON. RÍOS SANTIAGO: The meeting about the bondholders, PREPA, all coming together at the same table, sharing the information, full disclosure, to get something going.

MS. DONAHUE: I'm not sure where you are getting your information from, but we have had several face-to-face meetings with the creditors and their advisors, as well as several telephonic meetings where

there [has] **have** been information requests. So, I believe your information is incorrect.

HON. RÍOS SANTIAGO: And this is why this hearing is helpful, to clarify anything that has happened.

MS. DONAHUE: Yes. I appreciate the opportunity. Thank you.

HON. RÍOS SANTIAGO: Now, another information that we got, and it need to be actually put out to be answered, is that there hasn't been a response to many of the bondholders'-I would say- proposals and there hasn't been any feedback, formally, to those proposals from PREPA. Is that correct?

MS. DONAHUE: We have not given a written response yet. We told them that we would give it to them on April 24th and that deadline has not come yet. So, that is correct, they have not yet received a formal point by point analysis of their plan, but we do intend to present it to them.

HON. RÍOS SANTIAGO: So, that information was correct, then?

MS. DONAHUE: That information was correct, that's right.

HON. RÍOS SANTIAGO: So, what is the timeline...You already talked about something, but I want to refresh and be clear. What is the timeline for completing PREPA's plan and on what day will you be able to present to its Commission, like a timeline? You already have one? Are you working on one? It's going to be June. It's going to be December.

MS. DONAHUE: Right. When you say it's Commission, I'm confused by...Can you ask that question again? I'm sorry.

HON. RÍOS SANTIAGO: Ok. You know you have PREPA and there have been meetings about PREPA and having a plan that you are supposed to present to the Board. Instead of Commission, let's call it the Board.

MS. DONAHUE: The Board, ok.

HON. RÍOS SANTIAGO: The Board. And that plan hasn't been presented yet.

MS. DONAHUE: That's correct.

HON. RÍOS SANTIAGO: And we are doubtful which are the real dates, either June, December. When are you planning to finish that plan and be presented to...

MS. DONAHUE: To the Board?

HON. RÍOS SANTIAGO: ...the Board.

MS. DONAHUE: Ok. Thank you for clarifying. As I've mentioned, there are key elements to the plan that we are waiting on work products from the Siemens IRP, as well as the Navigant rate study. Those preliminary outputs, which is before their formal plans are due and will be presented, are due at the end of this month. And we will be using that raw data to convert it into an economic business plan and we will begin discussions with the Board shortly thereafter. Our expectation is to be able to get -and we've presented a timeline to the bondholders to discuss this, or to all the creditors actually, not just the bondholders across the creditor group-, to get them a draft of a plan on June 1st.

HON. RÍOS SANTIAGO: Ok. You've been talking about GE, how you haven't discarded GE as you mentioned, but you talk about Siemens. Now, we know what GE stands for, because they already put out their

proposal. Now, I don't know what Siemens proposal is all about. Will it cost the people of Puerto Rico? Will it be something that they will be willing compete with GE?

MS. DONAHUE: I'm sorry. Have you seen a GE proposal?

HON. RÍOS SANTIAGO: What we heard...

MS. DONAHUE: Because I have not.

HON. RÍOS SANTIAGO: You have not?

MS. DONAHUE: No one has,...

HON. RÍOS SANTIAGO: So, what we saw...

MS. DONAHUE: ...because it doesn't exist.

HON. RÍOS SANTIAGO: Doesn't exist?

MS. DONAHUE: It does not exist.

HON. RÍOS SANTIAGO: So, what we saw in the newspaper is propaganda?

MS. DONAHUE: What you saw in the newspaper is incorrect.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Thank you.

HON. RÍOS SANTIAGO: Incorrect?

MS. DONAHUE: That's correct.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Ok, Senator, your time is up.

HON. RÍOS SANTIAGO: Seven (7) minutes already?

SR. PRESIDENTE (HON. NIEVES PÉREZ): Yeah.

HON. RÍOS SANTIAGO: Ok. Well, I have many other questions about Cleary. I'm just going to finish with this because the information that I know for sure that is correct, because I already looked it up in the

computer, is that GDB contracted Cleary to do the same thing you're doing at double your rate.

MS. DONAHUE: At double my rate?

HON. RÍOS SANTIAGO: That is correct.

MS. DONAHUE: I'm a bad negotiator.

HON. RÍOS SANTIAGO: I don't know about that, but I think the Senate should inquire on where that money is going, what it's for and have they given any result. Because I see you, but I don't see Cleary here.

MS. DONAHUE: You do understand that Cleary is a law firm, not a financial advisory and operating restructuring firm.

HON. RÍOS SANTIAGO: I'm well aware of that.

MS. DONAHUE: Ok.

HON. RÍOS SANTIAGO: But when I see ten contracts...

MS. DONAHUE: So, I'll let someone else answer the question on exactly what they are doing, but just definitionally we'd be doing different things because they are not financial people and they are not operators.

HON. RÍOS SANTIAGO: So, they are not working with you?

MS. DONAHUE: They are working with us from a legal perspective, but they are not on the ground in PREPA working on operational improvements, no.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muchas gracias al señor Senador.

Pasamos al turno del senador Angel Rosa.

HON. ROSA RODRÍGUEZ: Thank you, mister President. Good morning, miss Donahue.

MS. DONAHUE: Good morning.

HON. ROSA RODRÍGUEZ: Let me state first from the beginning that I am a fan of your work...

MS. DONAHUE: Thank you.

HON. ROSA RODRÍGUEZ:...and that I fully support your contract with PREPA, a very necessary step at this point. And I have all confidence in the timely outcome of your work. I think that we better spend this money now in your services than taking the risk of losing PREPA for the future of Puerto Rico.

MS. DONAHUE: Thank you.

HON. ROSA RODRÍGUEZ: And even more impressed that you have, given all that work, you have time to start learning Spanish.

MS. DONAHUE: I am not that good. My Spanish is very weak.

HON. ROSA RODRÍGUEZ: Of course, you know, I mean, listening to your answers to Senate President Eduardo Bhatia, you said that you have work in such processes like PREPA restructuring in several other jurisdictions, one difference being that the level of publicity your work here in Puerto Rico gets. And I guess my first question has to do with that kind of publicity. I guess that, I don't know if you know who Cate Long is; she's an analyst for the municipal market...

MS. DONAHUE: No.

HON. ROSA RODRÍGUEZ: ...and she often has many opinions about Puerto Rico. She just tweeted, put on her twitter account an hour ago the following: "The immediate take on Donahue testimony is that she intends to leave PREPA intact and just transcend governance and

operations”. And I guess that my question is, given that commentary, at the end of all this, where do you see PREPA and how will PREPA be different from what it is right now?

MS. DONAHUE: I think PREPA needs to be dramatically different. I think PREPA needs to be culturally different, operationally different and systemically different. I think that how exactly from a legal framework perspective is the optimization elements that we are still trying to figure out. We have not thrown out the possibility of –as senator Bhatia asked- a mixture of IPPS, a mixture of a public-private partnership, a mixture of some elements of PREPA staying intact. I think that all things are on the table because we are at such a critical point, and PREPA does need to dramatically change.

HON. ROSA RODRÍGUEZ: What is clear to me is that the present being of PREPA, I mean, the kind of management it has, the kind of administrative structure it has is no longer viable for the Government of Puerto Rico to finance and to support. So, for me there is no question about it, we should probably get more participation from the private sector into what PREPA is going to be in the next few years and in the future of Puerto Rico, because the economy is not improving as fast as we thought and the demand is not going to increase like the bondholders believe. But we need a company providing energy to, not only the people of Puerto Rico, but the companies that want to come to Puerto Rico and do be business in Puerto Rico. Would you agree with that statement?

MS. DONAHUE: PREPA needs to be reformed. I’ve mentioned in my testimony that one of the significant challenges that PREPA has is every

four (4) years management switches out. Operating a business in that way, where you can't plan for long-term, is impossible. It's an impossible task to be able to efficiently manage a business where you know your tenure is short-term and you are going to have political pressures to do things that may or may not be in the best interest to the long-term results of the organization. I think that is a fundamental issue that PREPA has that must change.

I think dealing with those cultural challenges will allow PREPA to get on a path towards sustainability and do exactly as you said: to allow it to, in the long-term, over time, the goal is lower rate and in order to do that you must invest, you must get more efficient units. You must allow a management team to actually run the business and run it for the long-term versus short bursts of election cycles.

HON. ROSA RODRÍGUEZ: What do we do with the unfixable units, the unfixable plants, given that the demand is 60% of capacity right now?

MS. DONAHUE: Right.

HON. ROSA RODRÍGUEZ: Where do we go with these unfixable plants?

MS. DONAHUE: I think we have to look at it, and I go back to the challenge that because you are an island you must be self-sustaining, so we must develop a plan that over time gets you to newer, more efficient, but you can't just shut down a plant right now.

HON. ROSA RODRÍGUEZ: That's what we hear all the time.

MS. DONAHUE: You really do need a plan over time.

HON. ROSA RODRÍGUEZ: That's what we hear all the time, all around the island, that we should shut down those plants, because they are not efficient anymore. Is that a question of closing those down?

MS. DONAHUE: Without a reliable source of power from a systemic perspective, you can't just shut down those plants. What you have to do is work out a plan and a timeline that you can convert to efficient and modernize the technology. But again, the system reliability is huge here. And I mentioned earlier that because of the old technology, the age of the plants, PREPA deals with an uncommon amount of forced outages and forced outages are unplanned outages. So, when you have a forced outage, particularly of a base load unit, you must have backup power in order to make sure that you can deliver power to the island. So, it requires a very thoughtful process of upgrading the units, getting you to a modern unit before you can shut something down.

HON. ROSA RODRÍGUEZ: Will you be so kind as to describe to me your relationship with the unions, the PREPA unions?

MS. DONAHUE: We have met. I have met privately with union leadership, both UTIER and UTICE, and listened to their suggestions, their comments. I mean, they have been in PREPA consistently for a very long time. They have a lot of very valuable information that was helpful to me and my team. I have also had more formal meetings with not just leadership, but some of their members as we work together to improve safety.

I think the relationship is good. You may want to ask them. I think it's good.

HON. ROSA RODRÍGUEZ: Are they cooperating with your work?

MS. DONAHUE: They have been very cooperative. I think that particularly as it relates to safety it's a very human issue. It's something that everyone agrees upon to a person at PREPA. So, the union members have been wonderfully forthcoming with data, with information, with incidents, as has been management. Everybody wants to work together to improve the safety, so I think that is at least one very human, very common, element of what we are all working together on.

HON. ROSA RODRÍGUEZ: And last question, do you foresee a scenario in which bondholders take over PREPA in the future?

MS. DONAHUE: I don't know how they can. In the event of an actual default, which would mean none extension of a continued forbearance, as I've mentioned earlier, they do have the option to petition, after a 30 day default, an opportunity to procure a notice. They do have the option to petition for a receiver and that receiver would be appointed by, assuming they are successful, that receiver would be appointed by the Judge in the jurisdiction that they go to. The receiver would be there as long as necessary to ensure their debt is paid over time. But an actual take-over... You know PREPA is a government entity, I can't envision a scenario where the bondholders would either want to or, second, attempt to. I think the remedy that they could try, if they believe that that would get them a better outcome, would be a receiver.

HON. ROSA RODRÍGUEZ: Thank you very much, miss Donahue.

MS. DONAHUE: You are welcome.

HON. ROSA RODRÍGUEZ: Señor Presidente.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Dígame.

HON. ROSA RODRÍGUEZ: Aprovecho para excusarme de los trabajos, porque tengo que cumplir otro compromiso.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Queda excusado. Muchas gracias al senador Rosa.

Pasamos al turno del senador Miguel Pereira.

HON. PEREIRA CASTILLO: Muchas gracias, señor Presidente.

Miss Donahue, how are you doing? You want a break or something?

MS. DONAHUE: I will have some water, thank you.

HON. PEREIRA CASTILLO: Sure thing.

No incluyan esto en los siete (7) minutos.

I gather from your presentation here that Calpine, Atlantic Power, PREPA, Sems Corp, I think you mentioned...

MS. DONAHUE: Sems Group, yes.

HON. PEREIRA CASTILLO: Sems Group, ok. I feel the businesses of this kind that you have actually helped reestablish or rearrange or...How many, in your experience overall, power companies are actually in essentially government hands, some form of ownership in co-ops? I know Virginia Power is a co-op. How many are privately held? That is, you know, publicly traded and they belong to the stockholders. What's the percentage of each one of these things?

MS. DONAHUE: Oh, boy!

HON. PEREIRA CASTILLO: You know you can guess. That's ok.

MS. DONAHUE: I don't know if I can quote that for you. I think it's fairly common for some of the large conglomerates to have both a regulated

component, which would be similar but not exactly to a PREPA versus the more private sector piece, which is the independent power producers like a Calpine. At Atlantic Power, for example, it was IPPS that had contracted assets, renewables, clean energy. We also did have some transmission lines, so there were some regulated assets that were in California. So, I think it's common to have a little bit of a mix. And there is a municipal large power organization that PREPA belongs to and I want to say there is about fifteen (15) or twenty (20) members.

HON. PEREIRA CASTILLO: Ok.

MS. DONAHUE: But that is a guess.

HON. PEREIRA CASTILLO: So, at the very least, there's kind of a little bit of this, a little bit of that. A power production company is one seed in a field.

MS. DONAHUE: I think...Are you asking me what makes PREPA different?

HON. PEREIRA CASTILLO: No. I'm asking you if one were to make PREPA a little bit of this, a little bit of that company, how different would PREPA be from what one observes elsewhere?

MS. DONAHUE: Similar to a Long Island power authority.

HON. PEREIRA CASTILLO: It works that way, actually.

MS. DONAHUE: That's right. I think that that model is fairly prevalent.

HON. PEREIRA CASTILLO: Ok. Let me ask you...Generally I have five (5) questions, because otherwise they start bugging you with the time. I know we act well to bugging...

SR. PRESIDENTE (HON. NIEVES PÉREZ): Doing just fine.

HON. PEREIRA CASTILLO: Thank you.

Forbearance, simple English word, all that means is that you refrain from doing what you can do.

MS. DONAHUE: Yes.

HON. PEREIRA CASTILLO: That is what it means. So, that when one negotiates a forbearance agreement, really what one does is that one tells the people that can act against your interest, because they have the legal part to do so, not to do that. It is a certain...for whatever reason, principally economic reasons in this context, right?

MS. DONAHUE: Yes.

HON. PEREIRA CASTILLO: Ok. So, actually the forbearance agreement is, in effect, a recognition by the folks that are our, the people that we are indebted to, that it's in their interest to withhold any action in an effort to allow us to pay, according to the expectation, right?

MS. DONAHUE: I think that's correct, yes.

HON. PEREIRA CASTILLO: Ok. Well, I think that is correct too, so I'm glad we are in agreement.

MS. DONAHUE: It's good.

HON. PEREIRA CASTILLO: Yes. Now, as part of your testimony essentially, as I recall it, it says that you intend to improve the cash flow or you want to plan that out so that the cash flow improves; that you intend to modernize this generation facilities of the company so that we have actually a more efficient generation capacity and that you wish to lower the debt that

the corporation owes. Are we in agreement that that is essentially what you propose to do?

MS. DONAHUE: I think the only point that I didn't say in my written testimony was the lower the debt part. I am waiting for the whole plan to figure out where the debt fits into the complete plan. But I think it is fair to say to increase the cash flow, to make it a more efficient organization, to modernize the units so...

HON. PEREIRA CASTILLO: Ok.

MS. DONAHUE: ...it's efficient and you ultimately in the long-term lower rates.

HON. PEREIRA CASTILLO: Alright.

MS. DONAHUE: I think a sustainable capital structure is what I've said and that may take several forms.

HON. PEREIRA CASTILLO: Ok. Sustainable capital structure, meaning you make enough money so you have the capacity to borrow some money whenever you need to make capital investments for the company.

MS. DONAHUE: Yes.

HON. PEREIRA CASTILLO: Alright. And yet you remark, and that is actually the mantra in Puerto Rico: "Oh, it's a four (4) year cycle. Every four (4) years we get to..." You know? Everything goes away and we all become terrible people and the folks that you see here today that are somewhat interested in this will change and the folks that replace us are not going to be interested or are going to be interested in doing some other things. The point of my tone of voice is that I don't believe in that. I believe that most people that sit here, most people that sit there, everybody

that comes here are interested. We are interested in the same thing, nobody wants to walk around in the dark.

MS. DONAHUE: I think that's right.

HON. PEREIRA CASTILLO: Ok. So, having agreed to that, what was it specifically that, if you can remember, you can highlight or you can provide some time in the future, whenever you have the time to think about it, what has the Administration, political administration, required PREPA to do that has ended up in such terrible consequences?

MS. DONAHUE: I wasn't speaking actually of any particular administration. I was speaking more broadly about the way that PREPA has been managed over time, and expressly stating that this has been going on for a very long period of time. This is not a new phenomenon. I think that, principally, the every four (4) year change in direction is very difficult for an infrastructure company to plan long-term. Administrations change, policy changes, direction changes, and PREPA is required to work within that framework. I can't think of another organization that I've encountered where it's not just the top management, it's the top two hundred (200) people in that organization that switch out every four (4) years; so you've got no continuity for long-term strategic or financial planning. I think overarching, that's one of the biggest fundamental issues.

HON. PEREIRA CASTILLO: Ok. I would then surmise from that - and please tell me if I'm wrong-, I would surmise that were we to say: "Look, we are going to change ten (10) years to twelve (12) years, beginning next month. We are going to structure this plant so that the top two hundred

(200) executives of this company actually stay twelve (12) years in that position”. You’d agree with that?

MS. DONAHUE: I would look at it a little bit differently. I believe that people should be hired for their skills and their ability to do the job. If they are able to do it and they are successful and effective at their job, it can be twelve (12), it can be twenty (20) years, it can be five (5) years; it can be whatever period of time is required. I think having the term mandate is the challenge.

HON. PEREIRA CASTILLO: Ok. But I take it that since that’s your position and you’re the person in charge there, of at least the restructuring part of it, you’d do that. You would select people or recommend people or hire people that are capable or competent execution of their obligations, right?

MS. DONAHUE: Are you asking me if I am or if I would?

HON. PEREIRA CASTILLO: No, I’m asking you...

MS. DONAHUE: I am not understanding your question.

HON. PEREIRA CASTILLO:...if you would. But let me try and restated it slower.

MS. DONAHUE: Thank you.

HON. PEREIRA CASTILLO: Since you are the person in charge or the restructuring of the company now, first, would it be a recommendation or at least an agreement, a recommendation that I would make and that you would agree to if you do, that the selection of the two hundred (200) folks that actually run the company be undertaken with a view towards keeping

them there twelve (12) years or ten (10) years or twenty (20) years. You'd agree with that?

MS. DONAHUE: I would phrase it a little bit differently. One of the other issues that I think PREPA has, aside from the every four (4) year top level turnover, is individuals in positions that aren't necessarily qualified to be in that position. So, I would also say that it's important to set up a system and a policy that staffing decisions and leadership decisions are made on qualifications and made like other businesses where people are hired because they have the merits and they have the ability to do the job.

HON. PEREIRA CASTILLO: Ok.

MS. DONAHUE: Tenure notwithstanding.

HON. PEREIRA CASTILLO: One last question, just one.

SR. PRESIDENTE (HON. NIEVES PÉREZ): ¿Me lo promete? Muy bien.

HON. PEREIRA CASTILLO: One promise. That's my promise, just one last question.

Contributions in lieu of taxes, CILTS?

MS. DONAHUE: Yes.

HON. PEREIRA CASTILLO: Alright. Now, so that I make sure that we are both talking about the same thing, when you are talking about CILTS you are talking about the municipalities; and the structure is supposed to work the following way: the municipalities do not impose taxes upon the corporation, upon PREPA, and in exchange for that there's a certain contribution that company makes in free power to the municipality. Is that correct? Did I describe it correctly?

MS. DONAHUE: I think broadly speaking that is correct, yes.

HON. PEREIRA CASTILLO: Now, there's a twelve (12)...There's a percentage that exceeds 12% by a little bit, that gets imposed as a surcharge on the bill and you can...you know, the folks that are sitting next to you can assist you because they are assisting me to understand this thing. Is that the way that the structure works? PREPA imposes a surcharge in order to finance this free power?

MS. DONAHUE: If I could take a step back on CILTS for just a second.

HON. PEREIRA CASTILLO: Sure.

MS. DONAHUE: CILTS, definitionally you are exactly right. It's a contribution in lieu of taxes and the way that it is intended to work is that there is free power to the municipality, and that is in lieu, just as described and as suggested, in lieu of taxes. The way per the trust agreements is supposed to work is that that power is supposed to be paid for, it's supposed to go down the waterfall of current expenses and other expenses and ideally it's supposed to net out to a point that PREPA can then reimburse back to the municipalities. That's the way it's technically supposed to work, level notwithstanding. Let's just assume the level is exactly what it should be.

What actually does happen...

HON. PEREIRA CASTILLO: Ok.

MS. DONAHUE: ...is the municipalities are built; no cash comes in, so therefore PREPA does not fund it back. The way the rate structure is currently designed is that 11% surcharge, which is on purchased power and fuel, is intended to cover all of the subsidies.

HON. PEREIRA CASTILLO: Ok.

MS. DONAHUE: Not just CILTS, all of them. And the problem that we have, if you think about 11%, is 11% of a moving target, as it relates to commodities.

HON. PEREIRA CASTILLO: Ok.

MS. DONAHUE: So, on the one hand, lower fuel pricing is helpful to PREPA in that it's less cash out to pay for fuel and as a pass through it's lower to the consumer. On the other hand, it's hurtful to PREPA because it's 11% of a much lower number covering CILTS and other subsidies.

HON. PEREIRA CASTILLO: Right.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Thank you.

HON. PEREIRA CASTILLO: Essentially I'm done. I just need to...

SR. PRESIDENTE (HON. NIEVES PÉREZ): I know you're done.

HON. PEREIRA CASTILLO: ...ask your permission –hey, that's my line. Let me ask your permission –I think the Commission's permission- to ask this. How about...I know I have more questions. I know probably ever Senator here has more questions. Can we address these questions to you in writing so that you can, you know, if you need to meet with your advisors and the other folks at PREPA and then your answers will be appended to the record of the hearing?

MS. DONAHUE: Sure.

HON. PEREIRA CASTILLO: Is that agreeable?

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muy bien.

MS. DONAHUE: I'm looking to the people that understand...

HON. PEREIRA CASTILLO: I'll take my letter to your office personally. No, I'll take my letter personally.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muchas gracias al senador Miguel Pereira.

Pasamos al turno de la senadora María de Lourdes Santiago.

HON. SANTIAGO NEGRÓN: Muchas gracias, señor Presidente.

Good morning, miss Donahue.

MS. DONAHUE: Good morning.

HON. SANTIAGO NEGRÓN: Due to the time constraints, I only formulated one compound question and I'll address you in Spanish, not only because there is no need to punish you with my less than Shakespearean abilities in your language, but also because I strongly feel that a hearing as anticipated as this should be conducted in our language, not yours.

En las primeras doce (12) páginas de su presentación se hace un recuento de los logros alcanzados por su gestión hasta ahora, que básicamente se refieren a ciertos ajustes en las operaciones cotidianas de la Autoridad bajo la actual estructura. Eso está bien, pero no es suficiente. Y es apenas en la página 13 que comienzan seis (6) recomendaciones que son básicamente las mismas generalidades que cualquier ciudadano en Puerto Rico podría discutir tomándose una taza de café, lo cual a estas alturas a mí me parece que es completamente inaceptable. Y creo que para que esta vista no se convierta en una pantomima, en una perogrullada, el país necesita información más precisa, que debe estar disponible ya, aun cuando el plan del que usted hable esté en vías de redactarse en su forma final.

Así que, mi pregunta es la siguiente, por favor, que nos provea elementos más específicos sobre los trabajos, las consideraciones, los criterios que se han estudiado, que tienen que estar subyacentes algunas de esas generalidades que se mencionan. Comenzando, usted hace referencia al problema de la politización en la Autoridad de Energía Eléctrica, que es un problema muy conocido, y en su primera recomendación dice que el plan incluiría mecanismos que permitirían que la Autoridad operara más independientemente. La pregunta obligada es, ¿cuáles son esos mecanismos? ¿Cómo cambiaría la forma en que se designan las personas que ocupan posiciones en el cuerpo directivo de la Autoridad? ¿Qué significa esto en términos de cambios de contratación de personal o de servicios?

En su segunda recomendación dice, de manera muy vaga, que se necesita una inversión robusta de capital. ¿Cuánto es ese capital? ¿Cuál es el calendario previsto para ese tipo de inversiones? ¿A qué específicamente estarían destinadas?

En el tercer punto se dice que el plan incluiría una revisión de la estructura tarifaria de la Autoridad para permitir que el recobro completo de los costos operacionales actuales, gastos de capital, costos de financiamiento, etcétera, para llegar a la conclusión de que se requiere una nueva estructura tarifaria; es imprescindible que alguien haya una determinación muy precisa de cuan por debajo de lo requerido para cubrir esos costos está el ingreso actual por cobro de energía de la Autoridad. Así que, mi pregunta es, ¿a cuánto asciende en dólares y centavos la diferencia entre lo que actualmente factura la Autoridad y el estimado de cobro al que

aspiraría esta nueva estructura tarifaria? Creo que es la pregunta que tiene el país completo, porque esa diferencia la vamos a pagar nosotros.

Las recomendaciones para la revisión del CELI, ¿exactamente cuáles son? Todo el mundo está descontento con ese mecanismo, pero con repetirlo no resolvemos absolutamente nada. Así que, yo le pediría que sobre ese asunto...Y otro asunto también, la imposibilidad de cumplir con los estándares para los MATS, según está dispuesto por la Agencia Federal Ambiental, la EPA por sus siglas en ingles, ¿exactamente cuáles son las consecuencias que va a tener, en términos financieros para el Pueblo de Puerto Rico? ¿Cuáles son las penalidades que ya se pueden prever? ¿Qué quieres decir que parte de Palo Seco va a estar operando como un uso limitado?

Creo que tiene tres (3) minutos para contestar esas preguntas.

MS. DONAHUE: Ok. I apologize, but I can't respond to you in Spanish. I do think I got most of it here though.

A couple of things. This hearing was intended to give an update on the process of the restructuring process and what we've been doing up to now, not to outline specifically exactly what the plan will be, as I've mentioned. There are several work streams that are coming together that will be part of the plan to be delivered to the creditors in the beginning of June.

However, the rate question, the current base rate that PREPA operates under was designed in 1989. There have been significant developments across the energy industry that this rate doesn't take into consideration, for example net metering. Net metering is commercial customers that use solar

power and then go back into the grid and pay nothing for transmission and distribution. Modern utility rates account for that and capture that. A rate that was design and adjusted in 1989...

HON. SANTIAGO NEGRÓN: Disculpe, señora Donahue. Y disculpe que la interrumpa, pero tengo muy poco tiempo.

MS. DONAHUE: Sí.

HON. SANTIAGO NEGRÓN: Podemos estipular todo esto. Yo hice una pregunta muy específica, ¿a cuánto asciende la diferencia entre dólares y centavos entre lo que actualmente se puede facturar o cobrar y a cuanto aspiraría la nueva estructura tarifaria?

MS. DONAHUE: Again, Navigant was hired to come up with a very thoughtful process for restructuring the rate and we are required to present it to the Energy Commission. The Energy Commission will ultimately prove not only the rate in numbers, but also the rate in structure. We are working on providing a proposal to them on what we expect that to be.

HON. SANTIAGO NEGRÓN: ¿Ese es el final de su contestación?

MS. DONAHUE: I'm sorry, one second. Sorry.

HON. SANTIAGO NEGRÓN: ¿Ese es el final de su contestación?
¿Eso es todo?

MS. DONAHUE: As it relates to rate, that is my answer.

HON. SANTIAGO NEGRÓN: And as to the other issues? Eso fue en ingles.

MS. DONAHUE: Sorry. I didn't need that translated.

The other issues, so you asked about rate, you asked about...

HON. SANTIAGO NEGRÓN: MATS.

MS. DONAHUE: ...MATS compliance. To get on a path to MATS compliance takes many years and there...As I've mentioned, we are in discussions with the EPA. Whether or not PREPA has to ultimately pay any sort of penalties will be determined as part of the overall negotiated settlement with the EPA. As I've also mentioned, the Clean Air Act provides for the EPA to take into consideration the financial constraints of the party that is applying to the MATS settlement. So, right now I don't expect that we will be dealing with penalties. I do expect, as part of our negotiated settlement, which is part of our overall plan in our ongoing discussions for overall island compliance with EPA, that that will be part of the discussions.

HON. SANTIAGO NEGRÓN: No tengo más preguntas.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Muchas gracias a la senadora María de Lourdes Santiago.

Antes de...Before we wrap up, I just wanted to clarify that when I asked you about the business plan that had to be delivered by December 2014, you responded to me that what was required was a preliminary plan. Just to clarify, the Section 5 of Subsection 12 of the forbearance agreement clearly states that what had to be delivered was the business plan, not a preliminary. But just to clarify that, that's what the forbearance agreement says that...up until now is not in compliance.

We are wrapping up at exactly twelve o' clock (12:00 p.m.). Exactamente a las doce del mediodía (12:00 p.m.). On behalf of the Committee, I really thank you for your testimony.

MS. DONAHUE: Thank you.

SR. PRESIDENTE (HON. NIEVES PÉREZ): Siendo las doce del mediodía (12:00 p.m.), la Comisión de Asuntos Energéticos termina la vista pública en la cual escuchamos el testimonio de la CIO de la Oficial de Reestructuración de la Autoridad de Energía Eléctrica, Lisa Donahue. Buenas tardes.